

**STRATEGIC SOURCING: LEVERAGING
THE GOVERNMENT'S BUYING POWER TO SAVE
BILLIONS**

HEARING

BEFORE THE

COMMITTEE ON
HOMELAND SECURITY AND
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE
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STRATEGIC SOURCING: LEVERAGING THE GOVERNMENT'S BUYING POWER TO SAVE BILLIONS

MONDAY, JULY 15, 2013

U.S. SENATE,
COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS,
Washington, DC.

The Committee met, pursuant to notice, at 3:02 p.m., in room SD-342, Dirksen Senate Office Building, Hon. Thomas R. Carper, Chairman of the Committee, presiding.

Present: Senators Carper, McCaskill, Coburn, and Johnson.

OPENING STATEMENT OF CHAIRMAN CARPER

Chairman CARPER. The hearing will remain in order. This is a very orderly audience and panel. I want to welcome you all here today.

Last week, you may know, the President announced a new management initiative for his Administration to be led by Sylvia Burwell, no stranger to us, the new Director of the Office of Management and Budget (OMB). The goal of the initiative is to build a better, smarter, faster government. Today's hearing topic, Strategic Sourcing, is one that should be central to that initiative.

Strategic sourcing is a process that moves an organization from numerous individual procurements to a broader aggregate and, frankly, a more thoughtful approach to achieve savings. As my colleagues have heard me say often, I believe there are three essential elements to solving our Nation's financial challenges.

We must address both spending and revenues in a balanced approach, we must rein in the cost of entitlement programs in a way that does not savage the poor or elderly, and through better management of government programs, we must deliver better services to the American people at a lower cost, or at least the same cost.

The U.S. Government's departments and agencies spend over \$500 billion annually to buy goods and, beyond that, to buy goods and services in support of their missions. With that much money at stake, even a small gain in efficiency can save our taxpayers billions of dollars. The budget deficit this year, that OMB has revised, is at about \$750 billion. We need every billion that we can save.

Strategic sourcing is an example of the kind of low-hanging fruit that we ought to grab as we continue to search for ways to reduce Federal spending and ensure that taxpayer dollars are used prudently. It is a process that can help move an organization from nu-

merous individual procurements to a broader aggregate and, frankly, smarter approach to achieve savings.

At a basic level, strategic sourcing is really just a fancy way of saying buy in bulk or buy in quantity. But it also goes beyond that. It involves a careful analysis of spending needs, detailed market analysis to know what is available in the private sector, and a constant and rigorous monitoring of prices and performance to get the best prices and the best value.

Over the past year, the Government Accountability Office (GAO) has produced two reports for this Committee showing the power of strategic sourcing in the private sector and its promise for the government sector. The companies that GAO examined rely on detailed data analysis and centralized procurement systems to drive savings.

In fact, companies interviewed by GAO reported that they have saved between 4 percent and 15 percent over prior years' spending through strategic sourcing. If we applied that rate of savings to the Federal Government, we could save anywhere between \$20 billion to \$80 billion annually.

So you would think that the agencies would rush to adopt strategic sourcing wherever possible. Unfortunately, that has not been the case. Last fall, GAO examined four agencies that account for about 80 percent of Federal Government contract spending, the Department of Defense (DOD), Department of Energy (DOE), Department of Homeland Security (DHS), and Veterans' Affairs (VA).

And whereas the private sector companies examined by GAO were managing almost 90 percent of their spending through strategic sourcing, these four agencies collectively were managing only 5 percent of their spending through strategic sourcing. And only a tiny fraction of Federal spending is made through the Federal Strategic Sourcing Initiative (FSSI), which is a project overseen by the Office of Management and Budget and administered by the General Services Administration (GSA), with the goal of expanding the use of smarter procurement practices across the Federal Government.

Last fall, GAO reported that in fiscal year (FY) 2011, only \$339 million out of the total of \$537 billion in contract spending had gone through the Federal Strategic Sourcing Initiative. But GAO also found that even this small use of strategic sourcing had saved by \$60 million. As GAO has noted, Federal agencies appear to behave more like medium-sized unrelated businesses than the largest purchaser in the world, which is what the United States really is.

Instead of leveraging the buying power of the whole government, Federal agencies rely on hundreds of duplicative contracts for commonly used items. And far too often, our Federal contracting officers pay one price for a product or service without knowing that another Federal agency, or even another part of the same agency, is paying a completely different price for the exact same good or service.

Today we are going to hear from two individuals in the Administration who are leading the charge to drive the government toward greater use of strategic sourcing, Joe Jordan, the Administrator for Federal Procurement Policy at the Office of Management and Budget, and Dan Tangherlini, who is newly confirmed, and sworn

in as the Administrator of General Services Administration. Congratulations, Dan.

We will also hear from Cristina Chaplain, the Director of Acquisition Sourcing and Management at GAO, to hear more about GAO's illuminating work on this topic. I think there was some discussion about bringing in a witness or two from the private sector. I do not think we are going to do that today. I think the idea would be to do maybe a subsequent hearing and to bring in a panel from the private sector.

I hope that today's hearing will help us, in the meanwhile, address several key questions. First, why are agencies not making greater use of strategic sourcing? GAO found that the General Services Administration itself purchased less than one-third of its office supplies through strategic sourcing contracts—even those who know better—back when it comes to these issues?

Second, what is the potential for strategic sourcing in the Federal Government? We need to acknowledge that a good deal of what the government buys supports programs that are unique to the government, weapon systems and space technology, for example. The government may never utilize strategic sourcing to the extent that the private sector does, but even a small increase could save billions of dollars.

Mr. Jordan will testify today that the Federal Government has saved nearly \$300 million since fiscal year 2010 through strategic sourcing. The early signs are promising, but there is plenty of room for improvement.

The third point would be that I would like for our witnesses to respond to criticisms that strategic sourcing will crowd out small business vendors. This is a very real concern and we hope that the Administration and Congress can work together to make sure that small businesses have an ample opportunity to participate in strategic sourcing.

And finally, I hope that this hearing will help chart out a path for the Congress to play a constructive role in nudging or pushing agencies to buy smarter and to save taxpayers dollars. We look forward to hearing from each of you. We thank you for joining us today. Let me yield now to our Ranking Member, Dr. Coburn, for any comments he would like to make.

OPENING STATEMENT OF SENATOR COBURN

Senator COBURN. Well, thank you all for being here, and I thank GAO again for their great work.

The work is important, and yet, there are tons of recommendations from 2 years ago that have not been acted upon. I do not know what the process is, because we cannot find out what the process is, and I appreciate the Chairman mentioning that at some point in the future, we are going to have the business community here to see how they do it, and I think it is unfortunate that they are not here today, because when Wal-Mart buys something, I guarantee you they get the best price. When Honeywell buys something, I guarantee you they get the best price.

They know how to do it and not having that contrast at this hearing is unfortunate because there is a lot that we can learn from the people who are out there every day. Their goal is to get

the best price with the best product on time with the smallest inventory.

Mr. Jordan, one of the commitments that you told me when we did your approval was that you would bring data-driven solutions and results to your work at OMB. I am going to have some questions specifically about that in terms of what we have done thus far.

And Administrator Tangherlini, we talked about getting the best price on everything for the government every time and limiting some of the options. I look forward to asking a lot of questions today.

I am not concerned about protecting small business. I am concerned about getting the best price for this country because we cannot afford not to.

And if they can compete, great; if they cannot, great. They will find a market somewhere where they can supply their product and in a true, free enterprise system, if they cannot compete, they do not need to be in existence. They need to find somewhere else to specialize and those resources should be utilized somewhere else.

One of the things that I am concerned about is the lack of direction from OMB on how you measure, how you validate savings and the guidance that should have already come from OMB on that, so I am looking forward to questions on that. This is an important topic. We have about \$500 billion a year we ought to be able to save 10 to 15 percent on. That is a lot of money. That is \$75 billion a year that we ought to be able to save, especially if we start looking at service contracts which nobody has done yet to any significant degree.

We have \$47 billion worth of information technology (IT) contracts and we have not had an assessment on that, other than what GAO tells us that half of it is wasted. So, we need to look not only at performance, but also purchase price. So I thank the Chairman for having the hearing and I look forward to our witnesses' testimony.

Chairman CARPER. You bet. Let me go ahead and introduce our witnesses. First of all, the Hon. Joseph G. Jordan, Administrator of the Office of Federal Procurement Policy (OFPP) for the Office of Management and Budget. Mr. Jordan was confirmed as the Administrator for Federal Procurement Policy about a year ago in May 2012. As the Administrator, Mr. Jordan is responsible for developing and implementing the acquisition policies supporting over \$500 billion in spending by the U.S. Government each year.

Prior to serving at OMB, Mr. Jordan was the Associate Administrator of Government Contracting and Business Development at the Small Business Administration (SBA). Prior to his service in government, Mr. Jordan was an Engagement Manager at McKinsey & Company specializing in purchasing and supply chain management strategy. Did you work there at all with Sylvia Burwell?

Mr. JORDAN. We did not overlap, no.

Chairman CARPER. All right. We thank you very much for joining us today. We look forward to your testimony.

Our next witness will be Dan Tangherlini, newly confirmed, newly sworn in, tanned, fit and rested and now ready to resume

his full-time responsibilities, official responsibilities, as the Administrator for General Services Administration. He was sworn in July 5, about 10 days ago, following his 15 months of service as the Acting Administrator of GSA.

Throughout his career, Mr. Tangherlini has been recognized for fiscal and management leadership before joining GSA. He was confirmed by the Senate in 2009 as Treasury Department's Assistant Secretary for Management, Chief Financial Officer (CFO), and Chief Performance Officer (CPO).

In these roles, Mr. Tangherlini served as the principal policy advisor on the development and execution of the budget and performance plans for Treasury and the internal management of the Treasury and its bureau. We are happy you on board full-time in your new confirmed position and congratulate you again. Thanks for joining us.

Our third witness is Ms. Cristina Chaplain. Ms. Chaplain currently serves as a Director, Acquisition and Sourcing Manager at the U.S. Government Accountability Office. She has responsibility for GAO assessment of military space acquisition, National Aeronautics and Space Administration (NASA), and the Missile Defense Agency (MDA).

In addition, Ms. Chaplain has led a variety of DOD-wide contracting-related and best practice evaluations for GAO including reviews of strategic sourcing practices, program management best practices, revolving door issues, and conflicts of interest. She has been with GAO for 21 years. Ms. Chaplain, I want to welcome you to our hearing. We thank you for the great work that GAO and you have continued to do for our country.

Your entire statement will be made part of the record. If you would like to summarize it, feel free to do so, and try to keep your comments close to 5 minutes. If you go a little over that, that is fine. If you go way over that, I will have to rein you in. But, Mr. Jordan, you are up first. Please proceed. Thank you. Thank you all again.

TESTIMONY OF THE HON. JOSEPH G. JORDAN,¹ ADMINISTRATOR, OFFICE OF FEDERAL PROCUREMENT POLICY, OFFICE OF MANAGEMENT AND BUDGET

Mr. JORDAN. Thank you, Chairman Carper, Ranking Member Coburn, and Members of the Committee. I appreciate the opportunity to appear before you today to discuss the steps that the Administration is taking to deliver more value to the taxpayer through increased use of strategic sourcing.

Strategic sourcing enables the government to leverage our vast buying power to save money and improve the management of commodity goods and services. This Administration has challenged agencies to buy smarter by ending unnecessary contracts, reducing duplication, and using the government's buying power to get the same goods and services at lower prices. As a result, agencies have saved billions of taxpayer dollars and strengthened their contracting practices.

¹ The prepared statement of Mr. Jordan appears in the Appendix on page 39.

In this fiscally constrained environment, we need to do even more to drive unnecessary cost out of the system. We must structure our acquisition planning and requirements development processes to ensure that we are taking advantage of our position as the world's largest buyer.

To that end, I would like to share with you some of the actions we have taken to continue to build a stronger strategic sourcing foundation within and among agencies, and discuss recent steps to increase the number of solutions available.

Strategic sourcing has long been recognized by the private sector and the Government Accountability Office as a best practice, and successful companies around the world routinely aggregate demand in order to drive costs out of their supply chain. Federal organizations, however, have historically had challenges leveraging their spend because agency budgets and acquisition functions tend to be decentralized, and there is often a lack of visibility into what other agencies plan to purchase or what they are paying.

While we are still in the earlier stages, strategic sourcing is working. Governmentwide strategic sourcing of office supplies and domestic shipping services has already achieved over \$300 million in direct and indirect savings since fiscal year 2010. While we continue to build on these initial efforts, the benefits, both in reduced prices, cost avoidance, and better commodity management are clear.

First, prices undergo continuous monitoring comparison. Second, usage data is being provided to the agencies to improve buying behavior and commodity management. Third, small business participation has increased. And fourth, contracting officers, program managers, and contracting officer representatives are able to redirect their time and attention to acquiring and managing more mission critical and higher risk contracts.

To build on our initial steps and increase the use of strategic sourcing across government, last December OMB called in the seven largest buying agencies as well as the Small Business Administration, to form the Strategic Sourcing Leadership Council (SSLC), which I chair. These Federal agencies are working together to increase the number of strategic sourcing solutions available, help shape policies and processes to reduce the number of duplicative contracts, and improve the government's commodity management practices.

To further strengthen leadership throughout the government for strategic sourcing, OMB directed all 24 chief financial officer act agencies to identify an accountable official to coordinate their agency's internal efforts and to participate in the Strategic Sourcing Leadership Council initiatives.

The Strategic Sourcing Leadership Council and GSA reviewed over 20 initial commodity areas to identify those that were best positioned for strategic sourcing over the next 2 years.

These initial commodity areas included information technology such as laptops, desktops, and common software, which represents some of our higher spend areas. Other areas included janitorial and sanitation supplies, wireless services and devices, laboratory supplies, and a variety of other commodities that are generally pro-

cured in a decentralized manner, are common to most agencies, and for which some basic data were available for analysis.

Teams have been created to analyze each of the initial commodity areas. These teams have developed preliminary commodity profiles to better understand the total Federal spend, savings potential, and small business participation.

For example, through this process, the Strategic Sourcing Leadership Council learned that in 2012, agencies spent an estimated \$1.3 billion on wireless services and devices, using more than 4,000 agreements for 800 different wireless plans, resulting in prices that varied greatly for the same level of service.

Agencies also spend about \$600 million per year on janitorial and sanitation supplies in a highly decentralized manner with thousands of purchase cardholders requiring items ranging from toilet paper to hand soap to motorized floor buffers in small quantities.

The Strategic Sourcing Leadership Council is working to ensure that the commodity teams are conducting sound analyses, developing appropriate requirements, and establishing effective acquisition strategies to position the government to get the best deal possible by buying together.

Commodity teams are also well-suited to help identify standardized terms and conditions for governmentwide use in agency-specific vehicles. Strategic sourcing, when done right, is also mutually reinforcing with this Administration's commitment to increasing small business participation in Federal contracting.

For example, by actively engaging the small business community in the office supply strategic sourcing solution, GSA, which served as the lead agency for this initiative, increased total dollars going to small businesses from 67 percent prior to implementation of the strategic sourcing solution to 76 percent in recent months.

To further support the work that the Strategic Sourcing Leadership Council and many agencies are going to promote strategic sourcing, the Office of Federal Procurement Policy is taking a lead role on several initiatives to improve the information flow among agencies, and to give contracting officers and program managers the tools they need to make smarter buying decisions.

These include strengthening the business case process to reduce the number of overlapping or duplicative contracts for supplies and services, and developing a prices-paid portal to improve the transparency of the prices that contracting officers have negotiated for similar goods and services.

Our understanding of how best to implement and measure the success of strategic sourcing across large and diverse organizations for complex and unique commodities is an evolving process, but one that is making significant strides thanks to the work of the Strategic Sourcing Leadership Council, the commodity teams, and all of our agency partners.

OFPP is committed to reducing the cost of acquisition through greater use of strategic sourcing. It is my top priority and will continue to be one of the most effective tools agencies have in making their scarce budget dollars go farther to meet core mission needs. I would be pleased to answer any questions that you may have.

Chairman CARPER. Thank you, Mr. Jordan. Mr. Tangherlini, would you please proceed?

**TESTIMONY OF THE HON. DANIEL M. TANGHERLINI,¹
ADMINISTRATOR, U.S. GENERAL SERVICES ADMINISTRATION**

Mr. TANGHERLINI. Thank you very much, Chairman Carper, Dr. Coburn, Senator Johnson, Members and staff of the Committee. I appreciate the opportunity to appear before you today. First, I would like to take a moment to express my sincere appreciation for your quick consideration of my nomination last month. I greatly appreciate the vote of confidence and I look forward to continuing to work with this Committee and to reform and improve GSA.

Right now as budgets tighten across the Federal Government, the General Services Administration, is uniquely positioned to support our partner agencies so that they can focus their energy and funding on their own important missions such as securing our borders, keeping our food safe, or protecting air quality; missions that are critical to the well-being of our country and its people.

The Federal Strategic Sourcing Initiative is an integral part of this effort. GSA currently has in place four strategic sourcing vehicles, express and ground domestic delivery service, office supplies, print management, and wireless. These initiatives create significant savings by making purchases as if we are a single, unified buyer rather than purchasing through thousands of small, duplicative contracts.

By encouraging agencies to commit to the collective purchase of certain commodities, GSA is able to negotiate better prices and services while simultaneously reducing wasteful contract duplication across government. For example, by going out to the market as one large buyer for office supplies, GSA has been able to negotiate prices for those supplies that are 13 percent below what we have previously paid. GSA has saved agencies more than \$300 million since 2010 through these solutions.

Strategic sourcing also enables us to work with small businesses across the country. In the area of office supplies alone, 76 percent of our dollars are going to small businesses, representing more than \$460 million in sales. Through this initiative, we have been able to save the government \$200 million in purchases of common office supplies, while also supporting small business.

Another benefit of the strategic sourcing program is that these contracts provide greater visibility into pricing, allowing the government to further reduce prices within strategically sourced solutions, as well as other contract vehicles. Contractors are required to report transactional data on all program sales. For the first time, this level of financial information collection provides us with a clear picture of agency spending behavior.

Strategic sourcing also dramatically reduces agency contracting cycle times and duplication, saving additional administrative burden and costs. Based on an analysis of average contracting timeframes for more than 15 agencies, we found that using GSA's schedules is up to 50 percent faster for an agency than pursuing their own often duplicative solution. Strategic sourcing is able to eliminate the significant amount of time and money wasted through thousands of duplicative contracts across the government.

¹ The prepared statement of Mr. Tangherlini appears in the Appendix on page 46.

For instance, our work on strategic sourcing allowed us to replace the more than 4,000 wireless agreements and 800 wireless plans that are currently scattered across agencies with a single contract structure with four providers. Significant progress is being made by both GSA and other agencies to eliminate this duplication, but there is still more we can do to streamline purchasing, improve service, and pursue governmentwide contracting goals.

Over the next 2 years, in coordination with the Office of Management and Budget, GSA will create 10 new governmentwide strategic sourcing contracts for a range of products and services commonly purchased by Federal agencies. GSA is working toward establishing strategic sourcing solutions for fiscal year 2013, in the areas of large desktop publisher software; print management phase two; maintenance, repair, and operation supplies; and janitorial and sanitation supplies.

These efforts, similar to the solutions for office supplies and delivery services, will save hundreds of millions in taxpayer dollars and deliver the best value to agency customers. For these solutions, vendors will provide detailed data on pricing and usage that allows us to drive even greater savings for agencies.

In addition, we are working with agencies to show them the savings that they are leaving on the table by not using strategic sourcing. This pricing data has allowed us to negotiate even greater savings from our vendors. GSA estimates the potential savings from strategic sourcing at a billion dollars annually when all 10 solutions are in place and agencies are fully participating.

A key element to our success is that these solutions are being created by the agencies with a cross-governmental team of acquisition professionals and experts drafting the requests for proposals, evaluating the solutions, and helping us to implement the solutions in their agencies. The team decides what products will go into the solution, what services they may require, and which vendors we will select to provide us with these products and services.

We are fortunate to have an outstanding new Commissioner of the Federal Acquisition Service (FAS) to support strategic sourcing in Tom Sharpe. Tom has almost 30 years of experience in both the private and public sectors as an acquisition leader. His years as both a vendor and a customer give our agency a unique understanding of the needs of everyone involved in the procurement process. I am confident he has the skills and dedication to guide strategic sourcing moving forward.

We are also focused on increasing agency participation in these contract vehicles. In order to help partner agencies achieve greater savings for the taxpayer, I have been meeting with agency Secretaries and Deputy Secretaries to discuss ways in which we can collaborate. Among the topics I have been discussing with them is an analysis of each agency's use of schedules and opportunities to expand and improve cooperation.

We show the agencies that using GSA schedules is up to 50 percent faster than creating their own contracts, which translates into millions of dollars saved in time and labor. We also show them that GSA schedules are an excellent opportunity to increase their small business participation.

At the same time, we are working with program and acquisition staff from agencies across government to understand their concerns about using GSA services so that we can better tailor the schedules to their needs and show them the vast array of procurement solutions our agency has to offer.

In the months ahead, GSA will continue to drive savings, streamline agency procurement operations, and deliver the best value for our partner agencies and the American people. As part of this broad commitment to savings and efficiency, GSA will continue to be a leader in developing and implementing strategic sourcing solutions.

In fact, it was an early attempt to leverage the scale and scope of the Federal Government through strategic sourcing that led to the creation of GSA. Our Federal Acquisition Service exists exclusively to aggregate the demand and purchases of the Federal Government to get the best value in price. In that sense, we kind of are the strategic sourcing agency of the Federal Government.

I appreciate the opportunity to be here today and am happy to answer any questions you might have. Thank you.

Chairman CARPER. Thanks so much, Dan. Ms. Chaplain, please proceed. Welcome.

TESTIMONY OF CRISTINA T. CHAPLAIN,¹ DIRECTOR, ACQUISITION AND SOURCING MANAGEMENT, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Ms. CHAPLAIN. Chairman Carper, Ranking Member Coburn, and Members of the Committee, thank you for inviting me today to discuss strategic sourcing in the Federal procurement arena. I think your openings covered much of what I wanted to say in my opening, so I am going to just emphasize a few points.

First, what do leading companies do? We have reported that commercial firms have saved 10 percent or more by leveraging bulk purchasing power to negotiate savings on goods and services. They subject 90 percent of what they buy to strategic sourcing practices. By contrast, as you have noted, the government's strategically sourcing about 5 percent.

That is the key to large savings, a modest reduction across a wide base of purchases. To do so, companies analyze suppliers, the number of contracts, and prices paid across the company to identify inefficiencies such as paying different prices for similar services, or not consolidating purchases across the company to lower prices.

Monolithic procurement organizations are not needed to be successful, but rather, a focus on leadership, shared data, ongoing analysis of spending areas, and accountability. I would also note that leading companies just do not view strategic sourcing as bulk buying. There are many things you can do to services and goods that are more complex that can get better prices and be smarter buying. They just may be not be bulk, but they can take you to a much better place for the company.

When Federal agencies do apply strategic sourcing initiatives, they show they can also save on the order of 10 percent or more. The problem is, as you said, agencies tend to focus on low-hanging

¹ The prepared statement of Ms. Chaplain appears in the Appendix on page 50.

fruit, that is, commodity-like products such as office supplies. Unlike the private sector, this approach produces small savings because higher spending categories are being ignored.

There are many opportunities to expand the use of strategic sourcing in the Federal arena. Our reports on duplication, overlap, and the fragmentation across the government in recent years, for example, have pointed out numerous instances where the government buys goods and services in a fragmented fashion with little insight into how purchases are taking place, little action to standardize or make requirements less complex, and little thought to leveraging buying power.

These include, just as examples, combat uniforms, foreign language services, geospatial data investments, electronic warfare systems and payloads, rocket launch services, unmanned aerial vehicles (UAV), information technology, among others. Moreover, we have recently reported that buying is fragmented for DOD professional health care initiatives, satellite ground stations, and DOD airships.

This does not mean that these goods and services can be easily commoditized and bought in bulk, but it does mean, as I said earlier, there are opportunities to buy them more strategically, to centralize procurement knowledge, to act as one buyer instead of many, to simplify requirements to increase competition, to gain more insight into cost drivers and market trends so the government is in a better negotiating position.

Our work has identified barriers to wider use of strategic sourcing practices. These include difficulty collecting and analyzing data, garnering leadership support and resources, a reluctance to give up control over spending, and a hesitancy to apply the approach to more sophisticated services which now comprise a large share of Federal contract spending.

It has been over 10 years since the Government Accountability Office first reported on the potential savings offered by strategic sourcing techniques; yet, agencies have made far too little progress. Recent actions taken by OMB and others to improve Federal agency use of strategic sourcing are promising, but given progress to date, more accountability, leadership, and oversight is needed. The Congress can play an important role in this regard.

This concludes my statement and I am happy to answer any questions you have.

Chairman CARPER. Ms. Chaplain, thanks. Thanks very much for joining us. Thanks for your testimony. We are joined by Senator McCaskill. Nice to see you, Claire.

Let me start with a question or two for you, Ms. Chaplain, if we could. When I think of the Federal budget, total Federal spending, I think of about 50 to 55, maybe 60 percent is for entitlements. Another roughly, we will say 10, maybe 15 percent is for interest. I think we have about 30 percent of our overall spending that goes for discretionary spending. About half of that is for defense, half of that 30 percent is for non-defense discretionary.

How realistic is it for us to be able to go to the entitlement part of our budget—which really is over half of our budget now and growing, and interest, when you put them together, they are about two-thirds of our spending. How realistic is it for us to be able to

apply strategic sourcing and realized savings out of roughly two-thirds of our budget, entitlements and interest?

Ms. CHAPLAIN. I do not believe our work is saying it should be pointed to those areas. It is concentrating on discretionary spending. What we believe is that it should be applied to more complex services and goods, and just services, for example, are half of our acquisition spending dollars, which is over \$500 billion total.

From there, we think it is realistic that they can be applied to things, even like technical types of services, program management support, administrative support, health care support. There are a lot of services within that discretionary budget that strategic sourcing is not being applied. There are a lot of very complex goods that it is not being applied.

When you think of strategic sourcing, the automatic assumption is, it does mean bulk buying and leverage buying and then people stop at things like weapon systems, but there are things you can do in that path to apply strategic sourcing.

Chairman CARPER. We have a big Air Force base in Dover. We have an airlift base. We have C-17s and C-5s. The Air Force is modernizing all the C-5Bs and we are trying most of the C-5As, but Dr. Coburn and I have had a hearing or two on C-5 modernization.

One of the things that we learned is, in negotiating with, in this case, Lockheed and a lot of subcontractors, in negotiating with them, if the government actually sticks to the negotiated procurement schedule in terms of rehabbing and overhauling the aircraft, modernizing the aircraft, we get a certain price, and it may be the number of six, seven, eight aircraft a year.

If we end up funding one, two, three, or four, it is impossible for Lockheed and whoever they are working with to be able to do the work at the agreed-to price. And I think we have provisions in our contract with them to be able to move away from the negotiated position.

So part of the obligation for us in the Congress is to make sure that we fund in a responsible way the weapon systems that we have agreed, in this case to modernize, to procure. It is kind of difficult sometimes because the nature of the threat to our country changes. So there are things that we can do on our side in terms of better ensuring that we move toward strategic sourcing.

One of those is what we are doing today, and that is oversight hearings, and to continue to put a spotlight on the agencies that are doing a pretty good job, the ones that are actually moving in the right direction, and, frankly, those that are not.

Give us some idea of what more we can do on the legislative side to make sure that we do not leave all this money on the table. There is a lot of money left on the table. It may not be 90 percent, 80 percent, or 70 percent that they reach in some of the larger private companies, but there is real money on the table. We are making some progress and I appreciate the efforts that are described here today, but what more can we do to expedite that and move forward with greater speed?

Ms. CHAPLAIN. I think from our point of view, what is really needed is more oversight, more pressure. Agencies have been moving, but the pace has been slow. So Congress can start by even just

holding more oversight hearings, exploring the issue further, and pressuring agencies. There could be legislation that actually requires the government to set governmentwide goals for strategic sourcing. There are none right now. Goals could be tailored by agencies as well.

There could also be goals separated not just in terms of how much we should strategically source, but what savings we hope to get. And then from there, you can break things down in terms of what should be done at the agency level. Should they have accountable officials? What should their responsibilities be? That is something you can ask the executive agencies to do.

Chairman CARPER. Dr. Coburn and I, and I think others on the Committee, are admirers of our new OMB Director. She called us both a week or two ago and told us that the Administration is about to write a rule out there in their management agenda. And she was good enough to ask us what we thought—how should we interact between the Legislative and Executive Branch to better ensure that was a robust agenda and it was actually going to be pursued and implemented.

This is a great area to highlight in terms of the management agenda. Let me just ask Mr. Jordan, to what extent has the Administration rolled out their management agenda? Where does strategic sourcing fit in?

Mr. JORDAN. Front and center. It is absolutely going to be intricately involved in any management agenda, roll out and execution efforts. Obviously, Director Burwell and the President and the team have begun the process in a very public fashion of developing the management agenda and, as you said, want to reach out to all stakeholders to make sure that we get the best ideas.

But I am quite confident that strategic sourcing and furthering the good progress that we have already made will be at the top of the list of things that you will see highlighted in any management agenda.

Chairman CARPER. We currently do not have a Deputy Director for Management at OMB, as you know, and I understand that the Administration is vetting somebody and we are hopeful that vetting will be concluded soon, if not already, and that we will have the name of a nominee to consider here.

How will that person, very senior person, within OMB, the Deputy Director for Management, how will that person interface with this particular issue of strategic sourcing?

Mr. JORDAN. In a number of ways. Most personally to me, they will be my boss, so they will be the ones lighting the fire, continuing to light the fire under me, as Chair of the Strategic Sourcing Leadership Council and Administration for Federal Procurement Policy, to make sure that we are delivering on the promise that strategic sourcing has shown in terms of—

Chairman CARPER. So maybe when we have that hearing for that nominee, this is something that we should turn to—to make sure she is lighting that fire, he is lighting that fire?

Mr. JORDAN. I leave all nominee-related questions to you, Mr. Chairman.

Chairman CARPER. All right. Let me ask, Mr. Tangherlini, let me just stop there. I will telegraph my next question that I want to

ask you when we come back, when it is my turn again to talk. Where are some good examples, some good models, whether they are in the private sector or in the public sector, maybe the non-profit community, that we can look to for good practices that might be exportable that we could use as a model for ourselves? With that, Dr. Coburn.

Senator COBURN. Mr. Jordan, have you issued guidelines on how we measure savings in terms of strategic sourcing?

Mr. JORDAN. Sir, we did issue guidance on December 6. We issued an OMB memorandum signed by Jeff Zients that created the Strategic Sourcing Leadership Council.

Senator COBURN. No, I understand that. I am asking you a specific question.

Mr. JORDAN. Sure.

Senator COBURN. Have you issued guidelines to the agencies on how they will measure the savings from strategic sourcing purchasing?

Mr. JORDAN. No, because the—

Senator COBURN. OK. The answer is no. So the point is, here is my question to you.

Mr. JORDAN. Sure.

Senator COBURN. How do you know what your savings are? Because every agency is actually measuring that different according to what we have looked at.

Mr. JORDAN. Well, actually, for the Federal Strategic Sourcing Initiative vehicles, the governmentwide vehicles, that the Strategic Sourcing Leadership Council creates and GSA, in many cases, runs point on, we have a savings methodology by the category. One of the complicating factors is, the drivers of cost, and therefore the drivers of savings, are different depending on what you are buying.

So for domestic shipping services, we have a savings methodology and that is how we arrived at some of the savings figures early. Same thing for office supplies, wireless as we roll that out, print management, et cetera. So we found that it is critically important to make sure that we are measuring savings in a consistent way for these governmentwide vehicles, but we want to leave it to the commodity teams to come up with how to do that.

And then in terms of the agency-specific efforts, which were a big piece of this as well, you are absolutely right, that one of our big challenges is to continue to drive standardization in the way agencies are calculating the savings. The challenge there is, there are broad questions about how exactly you capture strategic sourcing savings. I did this in the private sector and I know they struggle with the same things.

GAO's report said for services, the private sector companies they talked to saved between 4 and 15 percent, but they specifically said, that is 4 and 15 percent in the first year versus what they had spent the year before. What do you do in year two? And do you measure versus a base year? Do you measure versus just the prior year? How do we appropriately capture the savings over time is a complicated question and we care deeply about this.

You are absolutely right. I still remain firmly committed to data-driven analysis, but first we need a collective agreement on what

are some thorny issues in the methodology. And second, we need the data, which is why a prices-paid portal is so important.

Senator COBURN. So when are the agencies going to see the guidelines with which to make the reporting requirements to you? I am an accountant by my first training and these are not hard concepts to me. There are facts, there are assumptions. If they are going to allocate savings a certain way, they ought to have to footnote what the assumption was when they did it.

But with an absence of guidelines, you do not know that your data is right. And that is our problem in the Federal Government. And my big disappointment is, there have not been guidelines issued so that we have a uniform and consistent way in which we measure what the real savings are. How do you calculate the labor saved? It is not hard to calculate the price differential, that is the easy part. So that would be one thing that I am interested in.

One of the other things in reading and preparing for this hearing that is a real contrast to me versus I see what you all are doing and what GSA is doing, is business does not go for the low-hanging fruit first. They go where the money is, where the biggest money is. And so, you all have done a very good job in starting this. I am not critical of that. I think the effort, it has not been there before and I congratulate you that it is there.

But when you look at contracts, and this Committee has looked at a lot of contracts, especially IT contracts and Defense procurement contracts, we actually know on the C-5s that we could have actually bought the engines for a million dollars less had we placed an order for them. Nobody in the government ever called GE and asked them before I did.

So the point is, is the businesses that we have talked to, and my staff have talked to, they go where the biggest dollars are first, regardless of how hard it is. That is where the biggest savings are. And so, if we can go from 4 to 15 percent somewhere, we have \$500 billion, 15 percent of that is \$75 billion. We ought to be going where the big money is while you do this other area.

I would just be interested in, where are you on that in terms of contracts and trying to get strategic sourcing on contracts, whether it be information systems or other categories. No matter what it is, where are we in terms of looking at the service contracts, over \$300 billion a year?

Mr. JORDAN. Sure. So I would disaggregate strategic sourcing into three buckets. The first is the Federal Strategic Sourcing Initiative, which is where a lot of the focus gets placed because it is a more formal governmentwide effort, and that is where you see things like office supplies, domestic delivery, wireless, things as you correctly said are a little bit lower on the complexity or value chain. We want to prove those efforts. We want to make sure we can deliver on standardized requirements, agency needs, and the savings.

Then there is strategic sourcing which can be done at an agency-wide level and that is where you begin to look at some of the efforts that DHS has done, Commerce, others that have looked absolutely at the IT items that you referenced in ways that you can really drive either volume-based discounting or just general buying smarter.

Then there is the third bucket, which is applying strategic sourcing principles to categories that you would not strategically source overall like the top category of goods and services we buy, fixed-wing aircraft. We are probably not going to just do a bulk rate discount, but there are a number of these commodity management principles that we are working with DOD and others to apply.

So we set up the Strategic Sourcing Leadership Council to vet and agree on and surface the opportunities for governmentwide strategic sourcing, but then every agency now has to have, and does have, a strategic sourcing accountable official so that we can tie all of these things together.

So I absolutely agree that you want to go where the dollars are, but at the same time, since we are in a crawl-walk-run progression and we are much more in walk than run at this point, we want to continue to prove the value to all the agencies so that we can build the momentum initiative by initiative and continue to improve.

Senator COBURN. Well, we are 8 years into this. I will just give you a little tidbit of information. I asked the head of Lockheed that if we placed the order for a fixed number over a period of 10 years of F-35s, what would the discount be? He shook my hand and said, I will give you 15 percent off. Nobody had ever asked him that question. Nobody at the Pentagon, nobody in the Administration, nobody ever anywhere had asked that question.

Now, he is no longer head of Lockheed. I do not know if it is because he answered that question or not, but the fact is, being able to get a reliable flow of information, is good for suppliers as well as good for us. We will come back and talk about that further.

Chairman CARPER. Senator Johnson, you are next and then Senator McCaskill.

OPENING STATEMENT OF SENATOR JOHNSON

Senator JOHNSON. Thank you, Mr. Chairman, and thank you all for your testimony. I came from the business world. I was in business for 31 years. I think strategic purchasing has been around certainly all the years I was in business. How long have we been trying to do this in the Federal Government? How many different initiatives has the Federal Government tried to undertake to do strategic purchasing? Mr. Jordan.

Mr. JORDAN. I do not know that I have a comprehensive figure, but I know that 2005 was the first memo that seemed to kickstart the effort in earnest. But certainly, it has felt like there is a significant reinvigoration since our December 6 memo and some of the Federal Strategic Sourcing Initiative (FSSI).

Senator JOHNSON. I am getting another answer here.

Senator COBURN. It is the Grace Commission.

Senator JOHNSON. OK. So the question is, why have we not progressed any further in the Grace Commission, which was the 1980s, right?

Senator COBURN. Yes.

Senator JOHNSON. I was in business starting in 1979. Ms. Chaplain, you are exactly right. It is about information, it is about data, it is about accountability, but let me throw another word out there,

incentives. Why does business do it? Because business has to make a profit. Now, every business manager that is undergoing this strategic purchasing does not necessarily have that profit motive, but they are being driven by the profit motive because their manager is telling them, your budget has just been cut by 10 percent.

So that would be the question I have for you. How can we instill an incentive into a government bureaucracy to actually start accomplishing some of this stuff, which should have truthfully been accomplished and implemented decades ago? Mr. Jordan.

Mr. JORDAN. Senator, I absolutely think you hit the nail on the head with the incentive challenge, and having done this in the private sector and engaged the President's Management Advisory Board, private sector Chief Executive Officers (CEOs) on this question, it all comes down to, how do we align the incentives with the behaviors we want to drive.

So what are we doing on that absent a profit motive that exists in the private sector?

Senator JOHNSON. Well, I will tell you one thing we are doing, sequester. That is a kind of incentive, is it not? And it has not been utilized properly. What we have done is, rather than utilize sequester as an incentive to actually get in here and do what makes sense in terms of reining in government spending, we scream about it and we try and create the most pain for it, or from it. I am sorry I interrupted you.

Mr. JORDAN. But what are we doing on incentives, which was your original question. And one of the big things is shining a light, increasing the transparency, something Dr. Coburn and I talked about before I was confirmed, and we are creating a prices-paid portal because what you can do is show how much we are paying, different agencies, different contracting officers are paying—

Senator JOHNSON. That is absolutely vital, correct.

Mr. JORDAN. And then that will help what we have seen over and over again in the private sector that helps drive the behavior to the smarter buying techniques and the lower cost option. So that is what we are trying to do, is use a combination of our own guidance, my bully pulpit and transparency to drive these behaviors.

Senator JOHNSON. I just want to suggest, I have sat through enough hearings now in 2½ years of how do you reform government. I hear methodology, I hear bureaucratic gobbly gook and it has not worked in 25, 30 years. I do not see that it is going to work in the next 5 years either. We have actually got to provide real strong incentives.

Ms. Chaplain, what is the resistance on the part of agencies? Why are they not taking a look at the information and looking at a best practice and trying to trim their budgets utilizing these tried and true techniques from the private sector?

Ms. CHAPLAIN. There are some negative incentives. If they do claim savings, they might get their savings taken away from them.

Senator JOHNSON. They are budget cut.

Ms. CHAPLAIN. Yes.

Senator JOHNSON. And they do not want to do that.

Ms. CHAPLAIN. Right.

Senator JOHNSON. So really, the incentive in government is failure actually pays off in government, does it not?

Ms. CHAPLAIN. Exactly.

Senator JOHNSON. OK.

Ms. CHAPLAIN. There is also a resistance just to lose control over spending. That was told to us a number of times. When you talk about incentives, DHS did put incentives in the Senior Executive Service (SES) contracts to use strategic sourcing, and they are an agency that is ahead of others. They have about 20 percent of their spending going through strategic sourcing. And the leading companies likewise put incentives into executive contracts. That is the best way to get people to behave and overcome these perceptions.

Senator JOHNSON. But in terms of—talking about incentives, are you talking about incentives to the suppliers? Are you talking about incentives to the managers who are actually making the decisions to purchase?

Ms. CHAPLAIN. Both. So for managers who are responsible for spending, acquiring stuff for a company, have incentives in their contracts to use strategic sourcing techniques, to follow the vehicles that the company has in place.

Senator JOHNSON. So give me an example of the incentive for an SES manager that is in place?

Ms. CHAPLAIN. I would say probably for DHS, it is to use one of their strategic sourcing vehicles to do their procurements versus doing the procurements on their own. There would be incentives in place for that.

Senator JOHNSON. But what kind of incentives? Are we talking financial incentives in terms of pay, merit based pay or they will just get a commendation in their employee file?

Ms. CHAPLAIN. Yes, it is probably part of their bonus calculation, is what I am assuming.

Senator JOHNSON. So those have not really worked that well then. Would that be your conclusion? Do you really think that is as good an incentive as what the private sector realizes when it—

Ms. CHAPLAIN. If you look at bonuses in the government, they are not comparable to the private sector, but for DHS, it does have better performance on strategic sourcing, so I would have to imagine their incentives at least are there in an SES contract. In the private sector world, the incentives might be more meaningful monetary-wise. And if you do not do it, what happens? I think the incentives there are more real.

Senator JOHNSON. OK. So again, I am not trying to beat up on the witnesses here. I am just trying to point out the futility—and we are seeing it. We have witnessed the futility over decades of trying to do this methodology when what we need is we need strong incentives, and they are financial incentives, either in pay or in budget cuts to actually start implementing this.

Mr. Tangherlini, what are the criteria that you are using in terms of targeting the priorities for these types of purchasing strategies?

Mr. TANGHERLINI. So we are participating in the Strategic Sourcing Leadership Council and bringing the agencies together and trying to identify opportunities where there are lots of overlap between what the agencies are buying and seeing opportunities that perhaps if we buy together, such as wireless service, basic

simple things, that we can begin to build a track record that allows us then to graduate into the more complicated things, as Ms. Chaplain was talking about.

Senator JOHNSON. OK. In case I do not have a second round, I do want to throw a cautionary tale about the risk to the supplier base. I think these things work great when you have a large supplier base. I think you need to be very careful when you have a very limited supplier base, because I have seen it in business where you basically ratcheted that thing down so you have a monopoly buyer. But then pretty soon you end up with a monopoly provider as well. So that is something that you need to be careful of. Thank you, Mr. Chairman.

Chairman CARPER. And I am planning to have a second round, and if you want to stick around, you are more than welcome to participate in it. Senator McCaskill, welcome.

OPENING STATEMENT OF SENATOR MCCASKILL

Senator MCCASKILL. Thank you, Mr. Chairman. The Contracting Subcommittee that I have worked on the last several years had a hearing on this subject matter in 2010, and I am sure that some of you have had a chance to look at some of what we did in that hearing.

One of the things that I was shocked to learn was this bizarre thing we have in the Federal Government where one agency sells to another agency and makes money off of it, which is weird. I mean, why is one Federal agency making money off selling stuff to another Federal agency? Why are they not all buying out of the same contract and paying less money?

Is that still as common as it was when we did our hearing back in 2010?

Mr. JORDAN. I think agencies buying on behalf of other agencies and assisting in the acquisition and therefore—because there is administrative costs to procuring a good, overseeing the contract, et cetera, taking a small percentage for that service is something that happens. But selling—

Senator MCCASKILL. But we found, Mr. Jordan, that they were advertising. One agency was saying, “Hey, buy from us,” because they were depending on—I mean, it was interesting because it was like a business model within the government where one agency was out hawking, “Buy your stuff from us,” “Go through us for your contracts,” “Hire your consultant to help you with your contracting testimony at the contracting hearing through our contracting consultant vehicle.” It was bizarre.

Mr. JORDAN. I think one of the things, too, that has happened since then, which shows a lot of the strides we have made in interagency contracting is interagency contracting itself was on the GAO’s high risk list at that time.

This year it was removed from GAO’s high risk list. So that shows that a lot of these things of who is in charge of managing the procurement of that goods and services, the oversight, and the shared responsibility between the acquisition center and the user needs to be robust, and we feel like we have addressed a number of those things. And thankfully, GAO agrees and it has really helped promote the right type of interagency acquisition.

Senator Coburn [Presiding]. Would the Senator from Missouri yield for a second?

Senator McCASKILL. Sure.

Senator COBURN. In the evening driving home—I listen to WTOP. Have you ever listened to the advertisements for contractor services on there? And how many purchasing people we must have in the Federal Government when they are going to spend that kind of dollars time after time after time to try to sell their product to somebody, rather than it going through a process? In other words, they are advertising directly to the purchasing person that is listening to that radio show hoping to sell, not on price, but on service.

Senator McCASKILL. Let me also, Ms. Chaplain, I wish that you had data that would show that there has been some impact on performance bonuses from something like using strategic sourcing contracts. But our investigation showed, and I know Mr. Tangherlini has done a very good job of stopping this, but honestly, Senior Executive Service bonuses, are like the sun coming up in the morning. I mean, there really were very few Senior Executive Service people that did not see their bonus as a right, an entitlement no matter what.

I mean, we had a witness in front of one our hearings that basically was not completely truthful about something. Guess what she got that year. She got her performance bonus. I mean, it was ridiculous! And so, I have a hard time believing, when we looked, that the vast majority of them were just getting them. There was not really any analysis going on.

So if there are incentives, I would really appreciate you getting back to us and telling us what they are, because I think everybody was getting the bonuses. And if I am wrong about that, I would like the data to show us that we are wrong about that, because that has been the common thing in the Federal Government. If you are SES, you get a five-figure bonus, no matter what.

Ms. CHAPLAIN. We can provide you data on what we know about the DHS incentives. We did not explore the actual results of those incentives, nor have we done anything governmentwide with respect to that yet.

Senator McCASKILL. It would be great because, I mean, Senator Johnson is right. Until we incentivize this behavior, the incentive is to buy a lot at the end of the year so it looks like your budget is tight. The incentive is to not save money because then the money you have saved might go to another agency.

It is a counter-incentive and we have to figure out a way to clean that up, because until we have the right incentives in place, it is a little bit like the delivery of health care. Until we have the right incentives in place, we are not going to really ever do anything other than what they have, with all due respect, I know you guys are doing better, but there are still a lot of councils. It is still a lot of hemming and hawing about guidance. It is still a lot of, “Hey, there is a new sheriff in town and you are going to strategically source what you buy,” period. I mean, that is what we need to be saying on this stuff.

On food contracts, we also discovered pretty outrageous stuff on food contracts in terms of rebates. And basically, I would like to

find out—when I sent Mr. Zients a letter in December of last year on the rebates the government is failing to collect from food service contracts, you stated that you recently met with key industry stakeholders to discuss food service contracts and see if we cannot increase transparency in the supply chain and recover some of that money that they are enriching themselves, I think, unjustly at taxpayer expense.

What came out of those meetings, Mr. Jordan, and what kind of good news can you tell me on food contracts?

Mr. JORDAN. Sure. So as you said, after you wrote the letter to Acting Administrator Zients, which brought it to our attention, I convened the industry stakeholders so I could get their perspective on what was going on, then made sure to respond promptly.

But since even sending that letter, we convened DOD, VA, and the U.S. Department of Agriculture (USDA) and they are now forming a team under the Strategic Sourcing Leadership Council to baseline their spends, compare their contracts, the rebates that you focused on, rightfully, in that letter, and determine what the right path for it is.

So they have identified team members already and plan to meet in the next 2 or 3 weeks on the SSLC task force. So we did bring it under this management structure so that we could make sure to capture any savings that were available.

Senator McCASKILL. Do you think that there will be a governmentwide policy on rebates for food service contracts?

Mr. JORDAN. It is too early for me to say what the terms and conditions of the Strategic Sourcing Leadership Council solution will be, but I can absolutely keep you and your staff up to speed as it progresses through the process, yes.

Senator McCASKILL. So what do you think, 6 months, 2 months? Can you give us any kind of—I would like, kind of, to hold your feet to the fire on this.

Mr. JORDAN. Sure. Can I—

Senator McCASKILL. I am sure you are not surprised at that.

Mr. JORDAN. No, ma'am. Can I followup in, say, 2 or 3 weeks with what the path forward looks like after they have had a chance to meet?

Senator McCASKILL. I would like a timeline so we can have some accountability, and I want you all to feel like you are under the deadline of some timelines, because there is real money there and it is outrageous when you really get in the weeds and look at what is going on with these food contracts. Thank you, Mr. Chairman.

Chairman Carper [Presiding]. You bet. Thank you, Senator McCaskill.

I told you earlier that I telegraphed my pitch and said I would come back and just ask, what are some good models for us to look to, to see who we might emulate? Could be within the Federal Government, maybe in other parts of the public sector. Could be States that are doing an especially good job at this kind of thing. Could be in the non-profit world, I suppose.

But what are some good role models for us that we might actually look to and figure out how do we export that to the Federal Government? Please.

Mr. JORDAN. Well, so I have worked with private sector and now certainly public sector, non-profits, sports league who have all engaged in strategic sourcing efforts and I thought that GAO did quite a good job in highlighting certain private sector entities that have strategic sourcing at the forefront of their supply chain management strategy and really their profit strategy overall.

Wal-Mart was one of the companies called down. Of course, my new boss, who you spoke favorably of earlier, comes from there and has a passion for strategic sourcing and furthering and amplifying the efforts that we have undertaken. Some of the other companies that are on the list are ones that I have worked with. The President's Management Advisory Board, we did site visits with a few of their companies that have had success in this area.

And there are agencies such as Homeland Security and others that Ms. Chaplain highlighted and the report highlights that have had great success here. But I think because each commodity category is a little bit different and the scale of the government's buying, which is why this is so important, is so different where different agencies coming together is not like one company bringing itself together.

It is like bringing all of these Fortune 500 companies together. That is why there is so much potential for it, but also why there are some unique complexities about our spend, and the Strategic Sourcing Leadership Council having these folks decide collectively and then we go forward on a unified path will be so important. So there are a number of places we are pulling best practices from.

Chairman CARPER. Good. Mr. Tangherlini.

Mr. TANGHERLINI. I would just add to what Joe said, that as part of our top-to-bottom review of the General Services Administration, we went and talked to private sector entities. We talked to a number of IT firms in Silicon Valley and, as the GAO pointed out in their very helpful report, the focus is less on the specific contract actions and more about contract planning and goals for savings.

If we can get to the point where we can actually get sufficient agency information around what they are going to buy, how they plan to buy it, we can begin to overlap that with other agencies, begin to develop a plan. We can begin to set goals for savings that we can then work to attain and even move into performance plans for executives.

So I think the real trick is, how do we begin to develop enough success in this area that agencies want to sign on, that they can begin to focus on those outcomes, and how can we begin to actually describe the savings we can generate for them.

Chairman CARPER. All right. Ms. Chaplain, same question.

Ms. CHAPLAIN. Some of the other companies not mentioned yet included Dell, Delphi, Pfizer. All were good examples. Also, as mentioned earlier, DHS has more dollars going toward strategic sourcing. They are getting very good savings.

Chairman CARPER. What did you tell us, 20 percent?

Ms. CHAPLAIN. Yes, 20 percent.

Chairman CARPER. As compared to?

Ms. CHAPLAIN. Five percent or less.

Chairman CARPER. Why do you suppose they are four times the average?

Ms. CHAPLAIN. They are dedicated to it more. There is more leadership there. There are some incentives trying to be put in place. And they have more centralized procurement for strategic sourcing. You can look at DOD and look at the Defense Logistics Agency (DLA), which by its nature is sort of the bulk buyer for the Defense Department and they buy everything from fuels to food to uniforms to kind of complex components, and they have been doing it for a long time.

They categorized about 40 percent of their spending as strategic sourcing, but it could be well that they are not defining some things as strategic sourcing that really are. I think that agency is worth looking at more in terms of how do they do it. They have been doing it for a while. Whether they employ the full range of techniques is another question, but they seem to me to have been successful at doing this for a little while.

Chairman CARPER. I understand they buy a lot of bullets over at the Department of Homeland Security. Are they getting a good price for those bullets?

Ms. CHAPLAIN. I have not looked into that issue, but I know it is a popular topic.

Chairman CARPER. Anybody know? I have heard that they get pretty deep discounts. They should be because they are buying quite a few. When you look at the private sector, companies, they can tell their managers, You have to use strategic sourcing and strategic purchasing, and they probably have a better ability to, as Senator Johnson was saying, talking about aligning the incentives.

One option with respect to mandating that agencies use strategic sourcing would be not necessarily just to mandate that they use it, but to say, If you do not want to use it, you can opt out. If you want to opt out, you have to explain why, rather than just basically make it an opt in. Say, you have to opt out.

And did somebody figure out how do we do actually, as Senator Johnson said, of better aligning the incentives for managers and for agencies that do that sort of thing? So be thinking out loud for me about the notion of opt out, saying, Agencies, we expect you to use strategic sourcing. If you feel that is not appropriate for some reason, tell us why, tell OMB why, or tell GSA why. Just react to that, if you would, for me.

Mr. JORDAN. You know—

Chairman CARPER. Maybe that is too simple.

Mr. JORDAN. Well, what I would say is, first of all, in the memo that OMB put out, it says right in the front section, to the extent practical, we are going to mandate the solutions, and I know that has been a topic of much consternation, so we are in constant back and forth dialogue with the small business community, the business community at large, and agencies. But it is certainly the spirit of some of these solutions.

We have to stop buying as if we are 180 mid-sized businesses and buy like what we are, the largest procurer of goods and services in the world. So that is in the memo that is an underpinning of what we are doing. But then to your kind of more tactical question of how do you do this, how do you implement this? We have had conversations with your staff even as recently as last week of what are the things that we can do so that it gives agencies the

flexibility to opt out, as you say, but perhaps document the file or go through some process so that the default mechanism and the easiest mechanism, because it is the best mechanism is using the strategically sourced solution.

Chairman CARPER. Anybody else before I yield to Dr. Coburn? Please.

Mr. TANGHERLINI. Very quickly, I think that while GSA is no longer a mandatory source, I think our job now is, as we take a leadership position in certain ones of these strategically sourced efforts, to push up the quality and the nature of the data so that it makes it easier, frankly, for the agencies to opt in. They know what they are opting into, they know what the value of what they are getting is.

Chairman CARPER. OK. Dr. Coburn.

Senator COBURN. Mr. Tangherlini, you talked about goals for savings. Leadership is best modeled by example. Are you going to have performance goals, specific savings goals in the performance criteria plans for your senior executives at GSA?

Mr. TANGHERLINI. Yes, we are. We are actually working on our performance plans right now, finishing them up for 2013 and devising a model for 2014.

Senator COBURN. So there will be savings goals in there?

Mr. TANGHERLINI. Small business participation goals, savings goals, that is what we are focused on so that we can demonstrate leadership in that area.

Senator COBURN. Along that line, Mr. Jordan, does the OMB plan on setting savings targets for agencies?

Mr. JORDAN. We did set savings targets through our cross-agency priority performance goals, so there is a capped goal on strategic sourcing, and it says, For each agency, through fiscal years 2013 and 2014, you have to strategically source two commodities, at least one in IT. I think as we all agree, that is a commodity—IT is a place ripe for strategic sourcing. And each of those categories needs to show 10 percent savings or more.

So that is a first step to get agencies comfortable with baselining savings, doing strategic sourcing, and tying that effort all together.

Senator COBURN. And with that, you are going to eventually notice the requirements for how you measure the savings?

Mr. JORDAN. That is right, and we are working closely with the budget side of OMB as well to make sure that agencies have the proper incentives throughout the process.

Senator COBURN. Mr. Jordan, you all in OMB and the Leadership Council set out some goals in December 2012 for expanding into the new strategic sourcing areas. Did you meet those goals? If you did not, why? Why not? And when do you anticipate meeting those goals?

Mr. JORDAN. Sure. So we are still in process toward the milestone dates by which we would meet those objectives, to stand up 10 new solutions. We have partnered very closely with GSA, who has taken a real leadership role in executing a number of those, but also other agencies. So we have a number of categories that have already been stood up.

Administrator Tangherlini talked about wireless. We have categories where request for proposals (RFPs) have gone out. The Li-

brary of Congress is leading an effort around information services, subscriptions, which all agencies buy things like that, and then we have a number more where the commodity teams have benched up. So I feel very comfortable that we will have the number of solutions created and they will be best in class.

Senator COBURN. What would you think—and any of you answer this—and I would be interested, Ms. Chaplain, in your response. One of the things you talked about was difficulty collecting and analyzing data. But we are at 5 percent versus private industry at 90 percent. How much should we be and when? What is achievable? I mean, you can say, Tomorrow we are going to be at 90 percent. We all know that is not achievable. What is achievable? When we come back here next year, what should be an acceptable performance in terms of agencies and the implementation of this?

Mr. JORDAN. I mean, I think in terms of overall addressable spend, the government is somewhere in the \$100 to \$150 billion out of that \$500 that you talked about that can be strategically sourced. There are, as we have said, strategic sourcing principles that can be applied to almost everything, so we need to define our terms. But it is a smaller subset of where I think true strategic sourcing in the private sector context can take place.

Senator COBURN. So \$75 billion is what you are saying?

Mr. JORDAN. In terms of addressable spend? I think over \$100 billion. And, savings will ramp up over time, but I would like to quickly be having a discussion with you and the Committee that we have now saved billions of dollars, and I think that is absolutely the expectation.

Senator COBURN. An expectation that we have a set of guidelines on how we—

Mr. JORDAN. A defensible and agreed-upon set of metrics, yes.

Senator COBURN. Mr. Tangherlini.

Mr. TANGHERLINI. So as I said before, we are not a mandatory source, so our job is to figure out ways, working closely with the procurement community, to try to figure out those solutions that they will actually choose to use. Now, part of that is going to be getting great data out, the way we have with the office supply solution, using that as a feedback mechanism to drive down prices.

In our most recent re-compete in office supplies, every vendor dropped their prices, and the range of prices collapsed substantially, and the overall cost was down about 13 percent. So what we are hoping we can do is demonstrate for agencies that by collaborating and by bringing our buying power together, we can get better data and we can get better prices and we can get better services, and that does not necessarily mean we have to have fewer small businesses or fewer opportunities for them.

Again, in the office supply, we have seen the amount of small business participation actually go up. Why? Because they can move faster. They have a cheaper ability to deliver the services. They have less overhead. So this is an opportunity where we can actually get two things that we want to get done.

Senator COBURN. Ms. Chaplain, did you want to comment on that?

Ms. CHAPLAIN. Yes. I believe our report said the consensus was about \$130 billion was achievable, and that is with kind of the

hard stuff taken out of that amount. So that is stuff that could be attacked pretty quickly.

Senator COBURN. OK. Mr. Tangherlini, one other area that Senator Carper and I have worked on is real property reform, and we have a problem with the budget of the Federal Government because if you buy a building, you get it expensed against your agency in the year, which is stupid. No business does that. They amortize the cost over the life of the facility.

Are there a lot of savings to be made in terms of space? In terms of strategic sourcing for space? I know there is in Oklahoma, because I have seen it, and you and I have had that discussion, and I have to assume there is throughout the rest of the country.

Mr. TANGHERLINI. Well, at some level, GSA is the strategic source provider for space. We are a mandatory source in terms of leasing space. But as you pointed out, the lease versus own decision gets complicated by scoring rules, which—

Senator COBURN. But you would agree, if we did not have the stupid scoring rules that we have, nobody can lease a building in this country cheaper than they can own it when interest rates are where they are. Nobody can. So the fact is, it does not make sense that we are leasing all this space. Anybody that is building that building is making a return on investment or they would not be leasing it to you at that price.

So the point is, is there not a large area where we spend hundreds and hundreds and hundreds of millions of dollars a year on leases, where we could not apply better models if we could change the accounting for it in terms of CBO and OMB?

Mr. TANGHERLINI. So that the data will speak for itself. We have dramatically increased the amount of money we have spent on leases in the last 20 years. The amount of unpaid-for investment in the property has been growing as well in our own property. So I think that there are opportunities, as laid out by some of the legislation that this Committee has put forward, for us to do a better job of managing our real estate.

Chairman CARPER. Before I yield back to Senator Johnson, just to followup on Senator Coburn's last point, I called over to your office, I think the day that your nomination was confirmed in the Senate just to let you know and to congratulate you. I think the person I spoke to indicated that you and maybe your family were on a well-deserved break, which I applaud.

But the person who answered the phone is a lady and she told me, she said, We are anxious to get to work on surplus property. Now, I do not know if she even knew that I was interested in that. Never said anything. But I was impressed. So I hope that is an indication that you and your team are raring to go because believe me, we are and have been for some time.

All right. Dr. Johnson.

Senator JOHNSON. Thank you, Mr. Chairman. To pick up on Senator Coburn's point about the amortization rules of the Federal Government, I mean, the problem I have—and we will get back to incentives—about the methodology, about the procedures is, you have some, again, all good intentions, good work on your part, but then you bump up against other mindless procedures in the Federal Government and it creates the gridlock which is probably why

we are not, after decades, we have not really progressed any further than we have.

Profit and loss is a very blunt instrument, which is why it is so effective. One thing I learned in business is when you have a problem, you are always looking within that problem. How can you create an opportunity out of the it? Well, I realized that sequester is a problem for Federal agencies.

What I would like to see is they take that problem and turn it into an opportunity to actually drive some of these reforms. And I think we need that kind of blunt instrument. So what a good manager would do under sequester is he would take those dollar amounts and he would allocate those to the agencies, to the departments and say, You will save this amount of money. Now let us figure out how to save it most effectively.

And so, you would start, throughout the agencies, all these department heads, without merit-based pay, they are actually going, Well, we only have this much to spend, we would like to preserve as many jobs as possible, we would like to make sure that we preserve the function of our agencies. What are the best practices out there?

They have a process, a new program within OMB, within GSA about how we can consolidate our purchases and they would maybe actually start implementing that. So I guess that is my question. Do you really truly believe that just with these methods—I mean, no offense, Mr. Jordan. Setting a goal of two commodity items saving 10 percent? I can figure 16 ways on Sunday to gain that system. Do you understand what I am saying?

What I will not be able to gain is when I realize that my budget was cut 10 percent and I have only 90 percent to spend of what I had the year before. Now I am going to actually look for some real savings. So again, I am asking for your comment. I mean, do you really think these procedures are going to have long-term effect?

Mr. JORDAN. I do think that the strategic sourcing procedures will have a long-term beneficial effect, on agencies. I do think they are the types of things that are structural, sustainable change that transcend administrative turnover and that sort of thing, because agencies can plow these savings back into mission no matter what the fiscal constraints of the time are, and we can deliver the savings back to the taxpayer.

You can get the same goods and service at a lower price, lower cost if you buy it smarter. So as we have certainly had a reinvigoration of this effort. We have begun to truly prove out its benefit to agencies. We are shining a light on it.

We are creating the right databases that give agencies the right incentives to act in this manner. And so, yes, I do think that they will be beneficial over time regardless of the fiscal situation.

Senator JOHNSON. Well, you have some experience in the private sector. Do you agree that there is a huge difference in the incentives driving performance in the private sector versus what you are seeing here in government?

Mr. JORDAN. Absolutely.

Senator JOHNSON. So barring sequester, I mean, is there some other way to create that type of incentive, that type of imperative

for managers to start saving the types of money that is really out there?

Mr. JORDAN. Yes.

Senator JOHNSON. These things are available if properly used, but again, to me it is just the incentive that is really preventing this from being implemented.

Mr. JORDAN. Sure. There is no doubt that there is a much different incentive structure absent the profit and loss component that the private sector is driving toward. That being said, these are dedicated public servants and they want to do the right thing and the best thing for their agency's mission. I have not met all 36,000 contracting officers, but I have met a lot and they care deeply about their agencies and their agencies' mission.

So when we are in a time of tight fiscal straits, they want to be part of the solution in helping their agencies in

Senator JOHNSON. Ms. Chaplain, is it not doing the right thing by your agency frequently getting a bigger budget? Trust me, I have talked to enough people out interviewing for positions and that is not an unusual basic job description: I want to make sure that I am achieving the priorities of my boss, and the priority frequently is getting enough budget money flowing to a particular area.

Ms. CHAPLAIN. Or just keeping your budget. I think that was the threat that we saw. The fact that they might lose some money if they were going to get savings was a threat enough not to even report an initiative that could be strategic sourcing as strategic sourcing.

With regard to your comments on the sequester and incentives, we did not see that connection of, we must do this because of the sequester or because of this year's budget situation. It is a short-term thing and that seems to be happening and strategic sourcing seems to be like a long-term effort. So those two things are not coming together.

We see people trying to take more short-term actions to deal with what is happening to them this year versus a longer term thing that could bring savings over a longer period of time.

Senator JOHNSON. Do people in the agencies believe sequester is going to stay? Do they really believe that while somehow this is going to get taken care of and nobody is going to be serious about actually not providing us that money we need long-term?

Ms. CHAPLAIN. I do not know about that. I just know that because strategic sourcing is a long-term view, right? And I do believe that sequester is a short-term view, so it is not really coming together.

Senator JOHNSON. Well, the Budget Control Act controls there a longer term view and you could see, in some way, shape, or form we are trying to adhere to those numbers. Those are numbers that agencies are going to have to adhere to long-term. Mr. Jordan, do you believe people are just assuming that this too shall pass?

Mr. JORDAN. Well, I think the sequester is so damaging because of the way that it has across-the-board cuts and it is thoughtless and mindless implementation of a percent reduction. I think that there is no doubt we are in tighter fiscal times. From 2000 to 2008

contract spending rose at 12 percent a year, year after year after year.

During this Administration, we have reduced contract spending by \$35 billion. Last year, we reduced it by \$20 billion, which is the largest decrease in contract spending in recorded history. So we absolutely are focused on reducing contract spending and doing so in a smart, thoughtful way.

But again, as Ms. Chaplain says, it is less about what the in-the-moment imperative is and more about, this is the right thing to do. And we do have to work with, and are working with, the budget side of OMB to make sure that you do not get credit for not doing the right thing. And that is absolutely part of this, and you have heard the Director, who is in charge of both sides, speak to this Committee about that, about strategic sourcing and the fact that she sees strategic sourcing as a priority of hers.

So that is why I am so confident that this will continue to build momentum.

Senator JOHNSON. OK. Again, thank you for your testimony, your efforts. I wish you the best of luck, I really do. Thank you, Mr. Chairman.

Chairman CARPER. Thanks, Senator Johnson. Let me turn, if I could, for any of our panelists, but to the issue of training. I think in some of the reports and anecdotal articles we have seen, the issue of competency in contracting for maximizing the use of strategic sourcing was mentioned. Are there any specific types of training or qualifications that you are aware of that are required for enhanced participation in strategic sourcing in order to try to maximize the use and the savings?

Then this is sort of a followup to that, what are some of the types of training that private entities, or even small businesses and for government staff that are available?

Mr. JORDAN. So training is absolutely a key component of this. When you look at the composition of our acquisition workforce, we are in a critical time. About a third of our contracting officers have 20 or more years of experience, so they are bumping right against retirement age.

Chairman CARPER. Say that again.

Mr. JORDAN. We have about 36,000 contracting officers and about a third of them, a little over a third have 20 or more years of experience, meaning they are bumping up against getting ready to retire. Another third of them have four or fewer years of experience, because we had a long period where we have reduced the number of contracting officers. During this Administration, we made sure to balance that more appropriately. So we have had some new folks enter.

That means that only one-third of our contracting officer cadre has between 4 and 20 years of experience, and that is a challenge because when you talk to agencies, they say, I want someone who has got 10 to 15 years of experience, has seen and done everything, services, goods, et cetera. Well, you cannot just build that.

So we need to focus on training. The Federal Acquisition Institute, which Dan and I partner with on closely, and the Defense Acquisition University, to make sure these types of principles and tools and techniques are integrated in the curriculum. That can be

through on-site classroom learning, but given these tough budgetary times, we also need to make sure there is distance learning, online education, and those types of things, and we are working very closely with both of those entities to make sure strategic sourcing is part of the curriculum.

Chairman CARPER. Same question, Mr. Tangherlini.

Mr. TANGHERLINI. I think part of our responsibility is also to go out and talk to the contracting officers and remind them about the existing not-quite-exactly strategically sourced vehicles, but common vehicles that we have at GSA so that people can save time, effort, and energy around leveraging existing vehicles.

We are also very closely working with Joe and the Strategic Sourcing Leadership Council to share more information about the specific contracts we have. I have been going agency-by-agency and meeting with Secretaries and Deputy Secretaries and talking to them about these opportunities.

Chairman CARPER. So you have been?

Mr. TANGHERLINI. I have been.

Chairman CARPER. Roughly, how many?

Mr. TANGHERLINI. I have done over a dozen so far. I have actually started moving into the bureau level.

Chairman CARPER. Have you been to Department of Homeland Security where they seem to be, according to Ms. Chaplain, doing a better job than most?

Mr. TANGHERLINI. Right. We met with DHS just about a month ago to talk about ways that we can leverage their skills, as well as—

Chairman CARPER. What are some lessons learned there?

Mr. TANGHERLINI. Well, so, I think it really was highlighted in the great GAO report about the fact that they do have a leadership commitment to it. They have resourced the activity and they have really focused in on where there are places of maximal opportunity. What we want to do with DHS is say, “Can we help you?” Because our job is to share great ideas across the entire enterprise. Can we help you leverage the programs that you have developed, to share them to other agencies?

And so, what we want to do is kind of serve as the internal government broker, if you will, of great ideas and best practices so that agencies can leverage that once and well approach, and so that we can leverage the scale. When we do not use the scale is when we lose our ability to kind of help set prices and help direct the market toward best outcomes for the Federal Government.

Chairman CARPER. All right. Ms. Chaplain, anything you want to add or take away here before I ask you a different question?

Ms. CHAPLAIN. A couple points. In our review, we found across the board one of the biggest challenges was a shortage of strategic sourcing expertise. And then second, in agencies that were more dedicated, they just had more people dedicated to the problem. A place like the Army, maybe only had like one or two, and that makes a big difference.

There is training that needs to be done, because it is a different skillset than just how to contract or what type of contract to use. This is up-front analysis. It is analyzing different kinds of data systems, identifying trends, knowing cost drivers, and the leading

companies, especially Dell, we visited have very big dedication to training their staff to do this kind of work.

Chairman CARPER. OK, good. I want to go back to something I mentioned in my opening statement, small businesses. And if I could, as I mentioned in my opening statement, it is important to consider how we move forward with strategic sourcing while providing ample opportunity for small businesses to participate.

I like to say, on an unrelated matter, but I think there is a good parallel here, the question is, is it possible to have a cleaner environment and, at the same time, have a stronger economy? Some people suggest we have to choose one or the other. I always say that is a false choice. We can have a cleaner environment, we can have a stronger economy, and actually there is plenty of empirical data to show that.

And the corollary here is, is it possible for agencies to move toward strategic sourcing, but still to do business with small businesses? Do we have to choose one or the other? Is that a false choice?

Mr. JORDAN. It is a false choice. Strategic sourcing and small business utilization, when done right, absolutely, unequivocally, are mutually reinforcing, just like your example with a stronger economy and a cleaner environment. You do not need to make the choice. If you do it well, they will drive each other.

We have seen that with the empirical data in office supplies. As you mentioned in my introduction, I come from the Small Business Administration. I care deeply about small businesses and small business contractors, and I think our focus needs to be on, when we design any vehicle up front, making sure we have the right terms and conditions to maximize small business competition; that when we are getting ready to move forward, we do everything we can to build awareness among the small business community that this solution is being set up, and awareness among the agencies that these small businesses are out there.

And then we continue to optimize the vehicle over time with on-ramps and off-ramps, things of that nature.

Chairman CARPER. Very briefly, Mr. Tangherlini and Ms. Chaplain, would you just react briefly to what Mr. Jordan said?

Mr. TANGHERLINI. So I already mentioned the success we have seen in office supplies, but I would also say that, as Mr. Jordan pointed out, there is a continuum of strategic sourcing that ends up with the type of vehicle, the single vehicle where you aggregate to spend. Another form of strategic sourcing is where we reduce the redundant contracts, we reduce the number of contracts, and that is what GSA, in many ways, does every day through its schedules program.

Eighty percent of the vendors on our schedules program are small businesses. And so, agencies can actually do set-aside competitions within those schedules that focus entirely on small businesses, that focus on the ability to deliver opportunity from small business, but also the ability to deliver price and quality.

And so, what we are out doing is trying to (a) make agencies more aware of the time savings and the benefits from using those existing vehicles rather than spending the time, effort, and energy to go build a new one, and (b) trying to get better data to aggregate

what that spend is so that we can then push it back to the Strategic Sourcing Leadership Council so we can go out and get vehicles that really leverage the scale of the government.

Chairman CARPER. Ms. Chaplain, you could respond if you would like. You do not have to, but if you do, just very briefly, please.

Ms. CHAPLAIN. Yes, very briefly. It was our observation that the Federal initiatives were doing a good job of involving small businesses and including them in the planning process. I would just note that GAO does have a study ongoing about the impact of those initiatives on small businesses. So you will hear more from GAO in the future on that question.

Chairman CARPER. OK, good. Thanks. Senator Johnson.

Senator JOHNSON. Mr. Chairman, I think when it comes to protecting small businesses, from my standpoint, the best way of doing that is, as you were indicating, Ms. Chaplain, this is really about data, about providing information, and more so involved purchasing. I think these initiatives really need to be about providing that information, that data, and making sure that your supplier base is unanimous, I mean, as much as possible.

So what you do not want to be doing is where you have a limited supplier base, do things like reverse auction. You drive three or four suppliers out of the business and you have to be very mindful from that standpoint.

Mr. Tangherlini, you were talking about contracts with multiple suppliers. Can you just describe a little bit what you are talking about there?

Mr. TANGHERLINI. Very quickly, one of the ways that we can help agencies save money in terms of the cost to spend, the amount of money they have to actually spend in order to get their requirements out into the market, is by them leveraging our existing vehicles, which are called the Multiple Awards Schedules. And across certain commodity lines, we have these schedules in which we have already agreed to a contractual relationship with a vendor.

Agencies can go into those schedules and engage in competitions. They can save, we estimate based on agency data, between a third and a half of the time of getting it from the market. Eighty percent of the vendors within our schedules are small businesses. So already you have an ecosystem or a marketplace where you have a lot of small businesses that can compete.

What we learned from the office supply schedule, though, is that by getting good data—and we require all of the vendors participating to provide what is called Level 3 data. That is actual spend data. We can take that information and share it back with the vendors. We can clean it up so no one knows anyone else's information, and we can demonstrate for them the price variability and where the best prices are.

When you do that for the vendors, they do something remarkable. They compete.

Senator JOHNSON. Right.

Mr. TANGHERLINI. And it drives down prices, it drives up quality. We did not lose a single vendor. What we did see, though, was a dramatic drop in price and a dramatic up in variation. So small businesses that were participating before are participating now. They are doing it in a way that really leverages what they bring

to the market, which is innovation, speed, alacrity, reduced overhead, and really forcing that competition on others as well.

Senator JOHNSON. You are really actually describing the total value proposition, which is not always about cost, but it is really the total value of having that supplier there. So, no, that is encouraging to hear, that you are sensitive to that, that by providing the information, you are not reducing your supplier base, which in the end, if you start doing that, will start driving up costs, you are trying to maintain the number of suppliers by providing them the information and putting the pressure on them to make sure they are as competitive as possible. Again, across the full price, customer service, and quality.

Mr. TANGHERLINI. That was one of the most interesting things about the GAO's report to me, was the real value of good, solid information, pricing information, vendor information, feedback. The best practices from the private sector is that there is a continual dialogue and a continual negotiation, continual sharing of information so that the private sector knows what they are competing against.

Senator JOHNSON. So from that viewpoint, continual information versus contract terms, how do you set that or how do you view that? Do you warn your contracts through your contracts or just a basic general contract, an ideal contract that has that information? In other words, if you are going to supply us, you will agree to these terms and here is all the information in terms of pricing and delivery and those types of things. I mean, is that how it works?

Mr. TANGHERLINI. In the case of the office supply contract, we require them to provide us continuous data, and we have a great group up in New York that is doing an amazing amount of big data kind of research into what we are getting in the way of spend, and feeding that then back to the vendors so that we can do a more meaningful competition the second time around.

It is that kind of knowledge of what actually is being spent and how people are actually using the contracts that is going to allow us to be a much better negotiator and, frankly, vendors to be a better supplier. I cannot say that there is any one particular contract term that works because of the real vast nature of the kinds of buy.

I think you just have to be a really smart, thoughtful buyer who knows your marketplace, who knows the vendors, and knows your customers, which gets back to the earlier point I was trying to make about the need for improved planning, a stronger sense of what the agencies are buying, who might be buying that and comment using our Strategic Sourcing Leadership Council to take that information and really come together as a body and say, look, this is how we are going to buy, this is what we are going to buy, this is when we are going to buy, and really build the vehicles that meet the needs. That is why having agency participation is so important.

Senator JOHNSON. Let me just suggest, the most important ingredient is then having a dollar figure that you must save. Thank you, all, and thank you, Mr. Chairman.

Chairman CARPER. You bet. Senator Johnson. Nice that you could be here for this I was saying going into this hearing, I was kidding with one of our interns that—one of our staff had said,

"This is not really the sexiest subject for a hearing," and I was asking our intern if he thought that was the case, and he sort of said, Compared to what? And he mentioned another hearing that he thought was actually a lot more interesting and sexy, but this is real important stuff.

Senator JOHNSON. This has some real potential for some real dollar savings. So thank you for holding the hearing.

Chairman CARPER. Huge potential, and I think you get that. Certainly Dr. Coburn and Senator McCaskill get that, and I know others do from our hearing, our Committee, that are not here.

I have two questions. The last one I will just tell you what it is going to be and you can think about it while I ask another. Sometimes at the end of a hearing, I like to offer our panelists to make a closing statement and you will have that opportunity today, not for 5 minutes, but a statement or two, something you want to just really reiterate, maybe to go back to see whether there are areas where you agree or disagree, or maybe just give us some good advice as we go forward and try to make sure we are doing our responsibilities on this side of the equation.

So while you think about that, let me just turn to the issue of total cost of ownership. Ms. Chaplain, I think in your testimony you noted that companies in the private sector focus on the total cost of ownership in making a holistic purchase decision by considering five factors other than prices.

For example, I think you noted that while Wal-Mart may award a contract to the lowest bidder, it takes other considerations into account such as average invoice price, average time to complete a task, supplier diversity, sustainability. Mr. Jordan and Mr. Tangherlini, let me just ask, do you believe that the strategic sourcing initiative encompasses this concept of total cost of ownership?

Mr. JORDAN. Absolutely, Senator. For every solution, we look not just at the price, but at the total cost of ownership. Is this a good that needs to be operated in a certain way? What about the quality? Are there disposal costs? Which is why the savings methodology is so complicated, because you really need to look by category.

But I absolutely agree that while price is important, it cannot be the only factor, and it is certainly not the only savings driver. We need to look at the total cost of ownership.

Chairman CARPER. OK. Mr. Tangherlini.

Mr. TANGHERLINI. I agree with Mr. Jordan's view. I think that is absolutely critical. Now, one of the complicating factors is our annual budget process, which makes it hard to score the value of total cost of ownership, but those are some of the challenges that are unique to our environment.

That having been said, by bringing together the Strategic Sourcing Leadership Council, by having agencies participate in the development of these contracts, we think we can best represent what the total cost of ownership is for agencies.

Chairman CARPER. Thanks. And just very briefly, Ms. Chaplain, are there any other lessons that come to mind, other lessons from the private sector or maybe some other specific examples from the private sector that illustrate the concept of total cost of ownership?

Ms. CHAPLAIN. The total cost of ownership is just there in everything they do and a lot of them spend a lot of time rating suppliers and the quality of the services and that gets factored into that feedback loop. So it is just part of their philosophy across the board.

Chairman CARPER. All right. Last thoughts? This is the chance to make a closing statement, just a short one if you would, but anything else you would like to emphasize, re-emphasize, maybe raise a new one, just respond differently than maybe you had a chance to before?

Ms. CHAPLAIN. I would like to close with just two things of most importance. First, to not be afraid to go beyond the low-hanging fruit to try to apply strategic sourcing to these higher spend categories. We spend nearly \$300 billion a year on services. That is a place to try. And I do think it can be done. It might be difficult and it might have to start at the agency level, but it is possible and that is where you are going to get a lot of savings.

The second point is not just to think of strategic sourcing as bulk buying. There are a lot of techniques that can be applied to more complex services and products, and some of those involve developing new suppliers so that you have more competition, understanding cost drivers, just a lot of things to put yourself in a better negotiating position.

So there should be more holistic thinking when we talk about strategic sourcing and not just to think of it as office supplies and doing bulk purchases. And maybe just to add one more thing is to really seek to get some accountability to do this so that we have more progress, a better pace of it. That does involve setting goals and finding the right incentives.

Chairman CARPER. OK, thanks. Thanks for that and thanks for the good work that GAO does on this front and so many others. Thank you. Mr. Tangherlini, just a closing thought, please.

Mr. TANGHERLINI. Chairman Carper, I want to close by thanking you for having this hearing and bringing this issue, this complicated issue, to light, but doing it in a way that I think also makes clear what the obvious opportunities are. You mentioned the Grace Commission earlier as one place where this issue had come up before.

Well, the GSA was created through something called the Hoover Commission, which back in the 1940s recognized the benefit and the value of leveraging the scale and the scope of the Federal Government, buying things once and well, and thinking about ways that we could begin to eliminate duplication across agencies. It is a dialogue that has been going on for some time. We have made progress in some areas. Obviously, there is much more progress to be made.

But I would just like to say that GSA stands by its original mission, and working closely with Joe and the entire acquisition community, we hope to develop the solutions that will allow us to really realize these benefits, because they are absolutely necessary right now.

Chairman CARPER. OK. Thank you. Thanks very much. Mr. Jordan.

Mr. JORDAN. Thank you, Mr. Chairman, and thank you for holding this important discussion. To synthesize, strategic sourcing is

my top priority, as I said. It is something that I came in from the private sector having seen this as best practice. It saves money. Agencies can plow that back into mission critical needs. They can deliver savings back to the taxpayer. We have seen increased small business utilization and it really helps us do business with the right suppliers, those with good past performance, those with good integrity.

We have made some important initial steps. The creation of the Strategic Sourcing Leadership Council, making sure every agency has someone focused on this. We have improved business case process. We are standing up on prices paid portal, all things recognized by the GAO when they took interagency contracting off the high risk list.

We are going to continue to push this aggressively going forward. I will continue to push this aggressively going forward, and it will absolutely be part of any future management agenda, which we will work together to create.

Chairman CARPER. Well, when your boss is finally vetted and nominated and that man or woman comes before us, we are going to return to this subject. Just make sure that he or she understands how important this is and to you—

Mr. JORDAN. I will have them well-prepped, sir.

Chairman CARPER [continuing]. And certainly to us. All right. I think that is going to do it for today. Again, thank you all for joining us today, for your preparation for today, responding to our questions, and even more important, for what appears to be a strong commitment to making sure that we actually get this done. There is a lot—like I say, everything I do I know I can do better. The same is true for most Federal programs and it is certainly true for strategic sourcing. We can do this better. We have to do this better. There is a lot depending on it.

The hearing record will remain open for another 15 days, that is until July 30 at 5 p.m., for the submission of statements and questions for the record. With that, this hearing is adjourned. Thank you so much.

[Whereupon, at 4:48 p.m., the Committee was adjourned.]

A P P E N D I X

Opening Statement of Chairman Thomas R. Carper
“Strategic Sourcing: Leveraging the Government’s Buying Power to Save Billions”
July 15, 2013

As prepared for delivery:

Last week, the President announced a new management initiative for his Administration, to be led by Sylvia Burwell, the Director of the Office of Management and Budget. The goal of the initiative is to build a better, smarter, faster government. Today’s hearing topic – strategic sourcing – is one that should be central to that initiative.

Strategic sourcing is a process that moves an organization from numerous individual procurements to a broader, aggregate – and, frankly, more thoughtful – approach to achieve savings. As my colleagues have heard me say often, I believe there are three essential elements to solving our nation’s financial challenges. We must address both spending and revenues in a balanced approach. We must rein in the costs of entitlement programs in a way that does not savage the poor or elderly. And through better management of government programs, we deliver better services to the American people at a lower cost.

The U.S. government’s departments and agencies spend over \$500 billion annually to buy goods and services in support of their missions. With that much money at stake, even a small gain in efficiency can save the taxpayers billions of dollars. Strategic sourcing is an example of the kind of low hanging fruit we can grab as we continue to search for ways to reduce federal spending and ensure taxpayer dollars are used prudently. It’s a process that can help move an organization from numerous individual procurements to a broader, aggregate – and, frankly, smarter – approach to achieve savings.

At a basic level, strategic sourcing is really just a fancy way of saying ‘buy in bulk.’ But it also goes beyond that. It involves a careful analysis of spending needs, detailed market analysis to know what is available in the private sector, and a constant and rigorous monitoring of vendor prices and performance to get the best prices and best value. Over the past year, the Government Accountability Office (GAO) has produced two reports for this Committee showing the power of strategic sourcing in the private sector, and its promise for the government sector. The companies that GAO examined rely on detailed data analysis and centralized procurement systems to drive savings. In fact, companies interviewed by GAO reported that they have saved between 4 percent and 15 percent over prior year spending through strategic sourcing. If we applied that rate of savings to the federal government, we would save between \$20 and \$80 billion annually!

So you would think that agencies would rush to adopt strategic sourcing wherever possible. Unfortunately that has not been the case. Last fall, GAO examined four agencies that account for 80 percent of federal contract spending – the Departments of Defense, Energy, Homeland Security and the Veterans Administration. Whereas the private sector companies examined by GAO were managing almost 90 percent of their spending through strategic sourcing, these four agencies, collectively, were managing only 5 percent of their spending through strategic sourcing.

And only a tiny fraction of federal spending is made through the Federal Strategic Sourcing Initiative, which is a project overseen by the Office of Management and Budget and administered by the General Services Administration with a goal of expanding the use of smarter procurement practices across the federal government. Last fall, GAO reported that, in Fiscal Year 2011, only \$339 million out of the total of \$537 billion in contract spending had gone through the Federal Strategic Sourcing Initiative. But GAO also found that even this small use of strategic sourcing had saved \$60 million.

As GAO has noted, federal agencies appear to behave more like medium-sized, unrelated businesses than the largest purchaser in the world – which is what the U.S. government is. Instead of leveraging the buying power of the whole government, federal agencies rely on hundreds of duplicative contracts for commonly used items. And far too often our federal contracting officers pay one price for a product or service without knowing that another federal agency – or even another part of the same agency – is paying a completely different price for the exact same good or service.

Today we will hear from the two individuals in the Administration who are leading the charge to drive the government toward greater use of strategic sourcing – Joe Jordan, who is the Administrator for Federal Procurement Policy at the Office of Management and Budget, and Dan Tangherlini, who is the Administrator of the General Services Administration. We will also hear from Cristina Chaplain, Director, Acquisition Sourcing and Management at GAO, to hear more about GAO's illuminating work on this topic.

I hope that today's hearing will help address several key questions. First, why are agencies not making greater use of strategic sourcing? GAO found that the General Services Administration itself purchased less than one-third of its office supplies through the strategic sourcing contracts. What is holding agencies – even those that know better – back when it comes to this issue?

Second, what is the potential for strategic sourcing in the federal government? We need to acknowledge that much of government procurement supports programs that are unique to the government – weapons systems and space technology, for example. The government may never utilize strategic sourcing to the extent that the private sector does. But even a small increase could save billions of dollars. Mr. Jordan will testify today that the federal government has saved nearly \$300 million since Fiscal Year 2010 through strategic sourcing. The early signs are promising but there is much room for improvement.

Third, I would like our witnesses to respond to criticism that strategic sourcing will crowd out small business vendors. This is a very real concern and I hope that the Administration and Congress can work together to make sure that small businesses have ample opportunity to participate in strategic sourcing. And finally, I hope that this hearing will help chart out a path for the Congress to play a constructive role in pushing agencies to buy smarter and save taxpayer dollars.

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STATEMENT OF
THE HONORABLE JOSEPH G. JORDAN
ADMINISTRATOR FOR FEDERAL PROCUREMENT POLICY
OFFICE OF MANAGEMENT AND BUDGET
BEFORE THE
COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

July 15, 2013

Chairman Carper, Ranking Member Coburn, and members of the Committee, I appreciate the opportunity to appear before you today to discuss the steps that the Administration is taking to deliver more value to the taxpayer through greater use of strategic sourcing. When agencies bring spending under management, they are able to achieve lower costs for administrative and commodity goods and services. Thus, strategic sourcing enables the government to leverage our vast buying power to save money and improve the management of commodity goods. This Administration has challenged agencies to buy smarter by ending unnecessary contracts, reducing duplication, and using the government's buying power to get the same goods and services at lower prices. As a result, agencies have saved billions of taxpayer dollars and strengthened their contracting practices.

In this fiscally constrained environment, we need to do even more to drive unnecessary cost out of the system. We must structure our acquisition planning and requirements development processes to ensure we are taking advantage of our position as the world's largest buyer. To that end, I'd like to share with you some of the actions we have taken to continue to build a stronger strategic sourcing foundation within and among agencies, and discuss recent steps to increase the number of solutions available.

Setting the Foundation for Effective Strategic Sourcing

Strategic sourcing has long been recognized by the private sector and the Government Accountability Office (GAO)¹ as a best practice, and successful companies around the world routinely aggregate demand, drive costs out of the supply chain, and develop supplier relationships that directly benefit the company's bottom line. Federal organizations are often challenged to leverage their spend because agency budgets and acquisition functions tend to be decentralized, procurement information can be difficult to analyze, and there is often a lack of visibility into what other agencies plan to purchase or what they are paying.

¹ <http://www.gao.gov/assets/660/653770.pdf>

To help agencies work through these challenges, the Office of Management and Budget (OMB) issued its first guidance memorandum in 2005 directing agencies to establish internal strategic sourcing programs.² Since then, agencies have taken important steps to establish commodity councils and identify opportunities, and the Chief Acquisition Officers Council partnered with the General Services Administration (GSA) to lead several first-generation Federal Strategic Sourcing Initiative (FSSI) efforts to develop Government-wide solutions for buying common goods and services.

The initial FSSI efforts focused on a small number of efforts – domestic delivery services, office supplies, and telecommunications expense management. Agency participation was modest, but the experience in planning, negotiating, and managing these vehicles was critical. Over the last several years, through a renewed focus on strategic sourcing, follow-on contracts for these and other efforts have shown even greater promise. Government-wide strategic sourcing of office supplies and domestic shipping services has already achieved nearly \$300 million in direct and indirect savings since FY 2010. While we continue to build on these early efforts, the benefits – both in reduced prices, cost avoidance, and better commodity management – are clear:

- Prices undergo continuous monitoring and comparison. For example, the price of a representative group of office supplies – or market basket – was reduced initially on the second office supplies effort (OS2) by over 13% and is re-examined on an ongoing basis to ensure prices stay low.
- Usage data is being provided to the agencies to improve buying behavior and commodity management. For example, shipping information is now available from the government-wide domestic delivery contract (DDS2) that shows when an agency paid for express delivery when ground delivery was less expensive for the same delivery time.
- Small business participation and utilization of other important procurement programs have increased. For example, on the OS2 effort, dollars to small businesses have increased by 9percent compared to pre-strategic sourcing levels, compliance with AbilityOne requirements has improved, and agencies are better able to satisfy their sustainability needs.
- Participation in these efforts also has benefits for contracting officers, program managers, and contracting officer representatives, who can redirect their time and attention to acquiring and managing more mission critical or higher risk contracts.

Concurrently, agency-level strategic sourcing improved since our initial efforts began. For example, the Department of Homeland Security saved over \$386 million in FY 2012 by pooling purchases for a wide range of products across the Federal Emergency Management

²http://www.whitehouse.gov/sites/default/files/omb/procurement/comp_src/implementing_strategic_sourcing.pdf

Agency, the Coast Guard, Customs and Border Protection, and other components. The Department of Commerce has put significant focus on reducing costs and changing behavior to better manage spending. Efforts have resulted in savings of up to 40 percent on personal computers and accessories and almost five million dollars annually by printing double-sided and in black and white only.

Expanding the Use of Strategic Sourcing

As GAO noted in their 2012 report, *Strategic Sourcing – Improved and Expanded Use Could Save Billions in Annual Procurement Costs*,³ agencies have an opportunity to take even greater advantage of this important management tool going forward. To build on our initial steps and increase the use of strategic sourcing across Government, last December OMB called on the largest buying agencies to form the Strategic Sourcing Leadership Council (SSLC).⁴ Led by the Administrator for Federal Procurement Policy, the SSLC is working together to increase the number of strategic sourcing solutions available, help shape policies and processes to reduce the number of duplicative contracts, and improve the Government's commodity management practices. To further strengthen leadership throughout the Government for strategic sourcing, OMB directed all twenty-four of the Chief Financial Officers Act agencies to identify an accountable official to coordinate their agency's internal efforts and to participate in SSLC initiatives.

The SSLC and GSA reviewed over twenty initial commodity areas – totaling approximately \$10 billion in annual spend – to identify those that were best positioned for strategic sourcing over the next two years. These initial commodity areas included information technology, such as desktops and laptops and common software, which represent some of our highest spend areas and are the focus of the PortfolioStat reviews being conducted by OMB's E-government Office.⁵ Other areas included janitorial and sanitation supplies; maintenance, repair, and operations supplies; information services; wireless services and devices; laboratory supplies; and a variety of other commodities that are generally procured in a decentralized manner, are common to most agencies, and for which some basic data were available for analysis.

Teams have been created to analyze each of the initial commodity areas. These teams have developed preliminary commodity profiles to better understand the total federal spend, savings potential, and small business participation. They quantified the degree of fragmentation in the market – both the number of unique vendors in the space and the number of contract actions throughout the Government for the same or similar goods and services. Potential lead

³ <http://www.gao.gov/products/D03318>

⁴ http://www.whitehouse.gov/sites/default/files/omb/memoranda/2013/m-13-02_0.pdf, The Department of Defense, National Aeronautics and Space Administration, Department of Veterans Affairs, Department of Health and Human Services, Department of Homeland Security, General Services Administration, Department of Energy, and the Small Business Administration make up over 90% of the federal spend.

⁵ <http://www.whitehouse.gov/sites/default/files/omb/memoranda/2013/m-13-09.pdf>

agencies were identified and any unique market conditions, such as a high number of resellers or highly variable terms and conditions, were noted. For example, through this process the SSLC learned that:

- In 2012, GSA estimated that agencies spent \$1.3B on wireless services and devices using more than 4,000 agreements for 800 different wireless plans resulting in prices that varied greatly for the same level of service. An earlier study by their Integrated Technology Services (ITS) Mobility Program concluded that savings of 13 to 20 percent were possible from strategic sourcing over the next five years.
- Agencies spend about \$600 million per year on janitorial and sanitation supplies in a highly decentralized manner with thousands of purchase card holders acquiring items ranging from toilet paper to hand soap to motorized floor buffers in small quantities. According to a GSA analysis, the savings potential could range from 10 to 20 percent.

The SSLC is working to ensure that the commodity teams are conducting sound analyses, developing appropriate requirements, and establishing effective acquisition strategies to position the Government to get the best deal possible by buying together.

While many of these initial efforts are focused on standing up new government-wide vehicles, there are additional options available that could improve how we buy and manage certain goods and services. For example, driving spending through a smaller number of existing vehicles – such as blanket purchase agreements (BPAs) or government-wide acquisition contracts (GWACs) – provide an opportunity for agencies to take advantage of suitable existing contracts while we get smarter about the commodity. Another aspect involves agencies analyzing demand to better manage what is required.

Commodity teams are also well suited to help identify standardized terms and conditions for government-wide use in agency-specific vehicles. Such standardization has multiple benefits: it allows each agency to reap the benefit of terms and conditions that are considered to be most effective; it helps an agency pool its own resources to secure lower prices and eliminate the administrative cost of maintaining duplicative vehicles; it can also help lower transaction costs for vendors – which can be especially beneficial for small businesses; and finally, standardization may also better position us at the government-wide level for a sourcing event in the future.

Core Characteristics of Strategic Sourcing

While each strategic sourcing solution and commodity is unique, there are several core principles of buying smarter that must be included in government-wide strategic sourcing solutions. For example, the action must:

- reflect the input from a large number of potential users so that the demand, strategy, and commodity management approaches align with customers' needs;
- drive towards getting the Government credit for all sales provided under that vehicle, regardless of payment method, unless the sales are identified with other government contracts;
- include tiered pricing, or other appropriate strategies, at the contract level (not just at the order level) to reduce prices as cumulative sales volume increases;
- require vendors to provide sufficient pricing, usage, and performance data so that we can continuously assess the results of the initiative and look for ways to improve, including reductions in demand that exceeds mission requirements;
- include post award commodity management plan to monitor vendor performance and pricing changes throughout the contract life cycle; and
- baseline small business participation and seek to meet or exceed current levels.

A Commitment to Small Businesses within Strategic Sourcing

I recently testified before the House Small Business Committee⁶ to discuss with Members of Congress and the public how this Administration is committed to increasing small business participation in federal contracting, and working to ensure that competitive small businesses can engage in – and grow through – strategic sourcing. To accomplish this goal, we must take advantage of best practices that promote small business participation and ensure we understand how to reduce barriers to entry in certain commodity areas to allow small businesses to compete. Best practices include:

- conducting effective market research so that small businesses can more easily find potential contracting opportunities and agencies can find capable small businesses;
- engaging industry early in the process to identify ways to improve the requirements or the acquisition process to promote small business participation;
- giving interested sources adequate time and information to respond to requests for proposals; and
- using technology to make doing business with the government easier and less costly.

By actively engaging the small business community in the Office Supplies Strategic Sourcing Solution, GSA, which served as the lead agency for this initiative, increased total dollars going to small businesses from 67 percent prior to implementation of the strategic sourcing solution to 76 through the strategically sourced solution.

⁶ http://smallbusiness.house.gov/uploadedfiles/6_13_13_ofpp_testimony_jordan_hsbcc.pdf

Additional Efforts to Support Transparency

To further support the work that the SSLC and many agencies are doing to promote more strategic sourcing, OFPP is taking a lead role on several initiatives to improve the information flow among agencies and to give contracting officers and program managers the tools they need to make smarter buying decisions:

Establishing a Business Case Process – To reduce the number of overlapping or duplicative contracts for supplies or services, OMB issued guidance in 2011⁷ requiring the development of business cases for the establishment and renewal of GWACs, and high-dollar multi-agency contracts, BPAs, and agency-specific contracts that could overlap with existing strategic sourcing vehicles. The business case must identify the existing vehicles that the agency evaluated and explain how the proposed vehicle differs from the identified existing vehicles. Before agencies issue a solicitation, they must post a copy of their business case for review by other agencies. This process has greatly improved information sharing and was a factor in GAO's removing interagency contracting from its high risk list earlier this year.

Developing a Prices Paid Portal - Many agencies negotiate better prices than those on the GSA schedule or other interagency contract if they are ordering a large quantity. However, this information is generally not shared among agencies as there is no central data collection requirement or system. To improve transparency of the prices that contracting officers have negotiated for similar goods and services, OFPP, working with GSA and other agencies, is developing a prices paid portal pilot that will show how agencies' deals compare. This aligns with a new Fiscal Year (FY) 2013 National Defense Authorization Act requirement for OFPP to begin collecting this information.⁸

Price visibility is critical to ensuring that the Government gets the best prices and that agencies are not paying more for the same products or services being bought under the same circumstances. As agencies face increasingly constrained budgets, it is critical that they share more pricing information with their Federal colleagues to ensure that the Government is negotiating the best prices for the taxpayer.

The Path Ahead

Our understanding of how best to implement and measure the success of strategic sourcing across large and diverse organizations for complex and unique commodities is an

⁷ <http://www.whitehouse.gov/sites/default/files/omb/procurement/memo/development-review-and-approval-of-business-cases-for-certain-interagency-and-agency-specific-acquisitions-memo.pdf>

⁸ <http://www.gpo.gov/fdsys/pkg/BILLS-112hr4310enr/pdf/BILLS-112hr4310enr.pdf>

evolving process, but one that is making significant strides thanks to the work of the SSLC, the commodity teams, and all our agency SSAOs. GAO noted in their 2012 report, having clear guidance on measuring success is critical to advancing this effort. Strategic sourcing utilization data, such as baseline spending, adoption rates, cost avoidance and savings calculations – while imperfect – are all vital to continued success of these solutions and improvements to our acquisition and management practices. Currently, the SSLC is measuring adoption rates for existing solutions that will be tracked using the OFPP's Acquisition Status (AcqStat) reviews, and we will work with the SSLC to develop the appropriate savings methodologies and adoption baselines for future efforts as these measures may vary by commodity.

OFPP is committed to reducing the cost of acquisition through greater use of strategic sourcing. It is my top priority and will continue to be one of the most effective tools agencies have in making their scarce budget dollars go farther to meet core mission needs.

I would be pleased to address any questions you may have.

STATEMENT OF
THE HONORABLE DANIEL M. TANGHERLINI
ADMINISTRATOR FOR GENERAL SERVICES ADMINISTRATION
BEFORE THE
COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

July 15, 2013

Chairman Carper, Ranking Member Coburn, and members of the Committee, thank you for the opportunity to appear before you today.

Today, as budgets tighten, the U.S. General Services Administration (GSA) is uniquely positioned to help federal agencies get better outcomes from their program dollars by leveraging the scope and scale of the federal government to deliver common sense solutions and significant savings. By utilizing GSA solutions, agencies can free up valuable resources that allow them to focus on their core missions. GSA is pursuing a number of common sense initiatives to help agencies reduce their costs, from assisting agencies to shrink their real estate footprints, right size their fleet, or ensure cost effective travel, by utilizing GSA solutions.

The Federal Strategic Sourcing Initiative (FSSI) is an integral part of this effort. This program is a structured and collaborative process of critically analyzing an organization's spending patterns to better leverage its purchasing power, reduce cost and improve overall performance. By going out to the market as one large buyer, an approach common to the private sector and even state governments, the federal government will enhance buying power, streamline acquisition operations, improve service, and create significant savings.

Current Solutions –

GSA currently has in place four strategic sourcing vehicles:

- Express and Ground Domestic Delivery Services (FSSI DDS2);
- Office Supplies;
- Print Management; and
- Wireless

These initiatives create significant savings by making purchases as if we are a single, unified buyer, rather than purchasing through thousands of small, duplicative contracts. By encouraging agencies to commit to the collective purchase of certain commodities, GSA is able to negotiate better prices and services, while simultaneously reducing wasteful contract duplication across

government. For example, by going out to the market as one large buyer for office supplies, GSA has been able to negotiate prices for these supplies that are 13 percent below what we have previously paid. We have also saved agencies the time and money that would otherwise be devoted to their own office supply contracts. To date, GSA has saved agencies more than \$330 million since 2010 through these solutions.

Strategic sourcing also enables us work with small businesses across the country. The program not only allows us to access the savings and services they offer, but also provide them with an invaluable opportunity to work with the federal government. In the area of office supplies alone, GSA has increased the total dollars going to small businesses from 67% prior to the strategic sourcing solution to 76% through the solution, representing more than \$461 million in sales. Through this initiative, we have been able to save the government \$200 million on purchases of common office supplies while also supporting small businesses.

Another benefit of the strategic sourcing program is that these contracts provide greater visibility into pricing, allowing the government to further reduce prices within strategically sourced solutions, as well as other contract vehicles. Contractors are required to report transactional data on all program sales. For the first time, this level of financial information collection provides us with a clear picture of agency spending behavior. Over the last several months, GSA has used this data to show contractors their pricing item by item, compared with their competitors in an anonymous fashion. This has empowered contractors to understand their competitive position, and in many cases offer better deals. For instance, after GSA shared this data with office supply contractors, every one of them sharply reduced prices. As a result, we expect our savings for office supplies to increase to 20 percent heading into the next fiscal year. GSA also found that by creating competition through this strategic sourcing solution, even vendors not participating in it lowered their prices by 10 percent compared to 2010. This improved pricing has resulted in an additional \$98 million in savings.

Finally, strategic sourcing also dramatically reduces agency contracting cycle times and duplication, saving additional administrative burden and cost. Strategic sourcing is able to eliminate the significant amount of time and money wasted by putting in place thousands of duplicative contracts across the government, and even within agencies, for similar items and with many of the same vendors. For instance, our work through FSSI identified large pricing and service disparities in agency wireless contracts that is costing the government millions in unnecessary spending. We even found vastly different pricing with the same carrier, for the same plan, in the same agency.

In the case of the just mentioned wireless plans, to assist agencies and eliminate unnecessary duplication, GSA recently awarded a strategically sourced solution for wireless service plans and devices. This new solution provides a single acquisition vehicle for the more than 4,000 wireless agreements and 800 wireless plans that are currently scattered across the agencies. Not only will this contract save agencies \$300 million over five years, it will allow agencies to run these plans and services at least as efficiently as your typical family plan. We will now be able to pool minutes, shut down lines with zero usage, and receive an inventory of devices.

This is not isolated to wireless services. We have thousands of duplicative contracts across government for cleaning supplies, power tools and software licenses, all with vastly different prices. In the area of IT and professional services alone, we have 16,000 contracts scattered across agencies with nearly 5,000 vendors. Significant progress is being made by both GSA and other agencies to eliminate this duplication but there is still more we can do to streamline purchasing, improve service and pursue government-wide contracting goals.

Strategic Sourcing Moving Forward –

Over the next two years, in coordination with the Office of Management and Budget (OMB), GSA will create ten new government-wide strategic sourcing contracts for a range of products and services commonly purchased by federal agencies. GSA is working towards establishing strategic sourcing solutions for FY 2013 in the areas of:

- Large Desktop Publisher Software;
- Print Management Phase 2;
- Maintenance, Repair, and Operations Supplies; and
- Janitorial and Sanitation Supplies.

These efforts, similar to the solutions for office supplies and delivery services, will save hundreds of millions in taxpayer dollars and deliver the best value to agency customers. For these solutions, vendors will provide detailed data on pricing and usage that allows us to drive even greater savings for agencies, and also makes it clear to agencies the savings that they are leaving on the table by not using strategic sourcing. We are also able to use the pricing data to negotiate even greater savings from our vendors. GSA estimates the potential savings from strategic sourcing at \$1 billion annually when all ten solutions are in place and agencies are fully participating.

A key element to our success is that these solutions are being created by the agencies, with a cross governmental team of acquisition professionals, program officials, and subject matter experts to identify agency needs, requirements, draft the requests for proposals, evaluate the solutions, and manage agency implementation. This team decides what products will go into the solution, what services they may require, and which vendors we will select to provide us with these products and services.

Increasing Utilization –

We are also focused on increasing agency participation in these strategically sourced contract vehicles. In order to help partner agencies achieve greater savings for the taxpayer, I have been meeting with agency Secretaries and Deputy Secretaries to discuss ways in which we can collaborate. Among the topics I have been discussing with them is an analysis of each agency's

use of schedules and opportunities to expand and improve cooperation. We show the agencies that using GSA schedules save time and money over creating their own contracts. We also show them that GSA schedules are an excellent opportunity to increase their small business participation and this is also the case for our strategically sourced solutions.

At the same time, we are working with program and acquisition staff from agencies across government to understand their concerns about using GSA's services so that we can better tailor the schedules to their needs and show them the vast array of procurement solutions our agency has to offer. GSA offers a wide range of solutions through its strategic sourcing initiatives, schedules, and government-wide acquisitions (GWACs). We are constantly exploring new ways to make our partners more aware of not only the savings that can be achieved through use of these vehicles, but also the cost of replicating existing, available vehicles. Finally, we are developing a continuous reporting framework to provide agency leadership with feedback on agency use of GSA vehicles and the available opportunities to reduce workload and save time in both developing contracts and fulfilling the agency's need.

Conclusion –

In the months ahead, GSA will continue to drive savings, streamline agency procurement operations, and deliver the best value for our partner agencies and the American people. As part of this broad commitment to savings and efficiency, GSA will continue to take a leadership role in developing and implementing strategic sourcing solutions. In fact, it was an early attempt to leverage the scale and scope of the Federal Government through strategic sourcing that led to the creation of GSA. Our Federal Acquisition Service exists exclusively to aggregate the demand and purchases of the Federal Government to get the best value and price. We are one of the key players in strategic sourcing for the Federal Government.

I appreciate the opportunity to be here today and I am happy to answer any questions you have. Thank you.



United States Government Accountability Office

Testimony

Before the Committee on Homeland
Security and Governmental Affairs,
U.S. Senate

For Release on Delivery
Expected at 3:00 p.m. EST
Monday, July 15, 2013

STRATEGIC SOURCING

Improved and Expanded Use Could Provide Significant Procurement Savings

Statement of Cristina Chaplain, Director
Acquisition and Sourcing Management

GAO Highlights

Highlights of GAO-13-765T, a testimony before the Committee on Homeland Security and Governmental Affairs, U.S. Senate

Why GAO Did This Study

GAO has reported that the government is not fully leveraging its aggregate buying power. Strategic sourcing, a process that moves an organization away from numerous individual procurements to a broader aggregate approach, has allowed leading companies to achieve savings of 10 percent or more. A savings rate of 10 percent of total federal procurement spending would represent more than \$60 billion annually. While strategic sourcing makes good sense and holds the potential to achieve significant savings, federal agencies have been slow to embrace it, even in a time of great fiscal pressure.

This statement highlights GAO's recent findings related to the use of strategic sourcing across government, best practices leading companies are adopting to increase savings when acquiring services, and recent actions that could facilitate greater use of strategic sourcing. GAO's testimony is based largely on GAO's September 2012 report on strategic sourcing and GAO's April 2013 report on leading practices for acquiring services, as well as other GAO reports on contracting and acquisition.

What GAO Recommends

GAO is not making any new recommendations in this testimony. GAO has made recommendations to OMB, DOD, VA, and other agencies on key aspects of strategic sourcing and acquisition of products and services in the past. These recommendations addressed such matters as setting goals and establishing metrics, OMB and the agencies concurred with the recommendations, and are in the process of implementing them.

View GAO-13-765T. For more information, contact Cristina Chaplain at (202) 512-4148 or chaplainc@gao.gov.

July 15, 2013

STRATEGIC SOURCING

Improved and Expanded Use Could Provide Significant Procurement Savings

What GAO Found

Most of the agencies GAO reviewed for its September 2012 report leveraged a fraction of their buying power. More specifically, in fiscal year 2011, the Departments of Defense (DOD), Homeland Security, Energy, and Veterans Affairs (VA) accounted for 80 percent of the \$537 billion in federal procurement spending, but reported managing about 5 percent of that spending, or \$25.8 billion, through strategic sourcing efforts. Similarly, GAO found that the Federal Strategic Sourcing Initiative had only managed a small amount of spending through its four government-wide strategic sourcing initiatives in fiscal year 2011, although it reported achieving significant savings on those efforts. Further, we found that most selected agencies' efforts did not address their highest spending areas, such as services, which may provide opportunities for significant savings.

Companies' keen analysis of spending is key to their savings, coupled with central management and knowledge sharing about the services they buy. Their analysis of spending patterns comprises two essential variables: the complexity of the service and the number of suppliers for that service. Knowing these variables for any given service, companies tailor their tactics to fit the situation, and do not treat all services the same. Leading companies generally agreed that foundational principles—maintaining spend visibility, centralizing procurement, developing category strategies, focusing on total cost of ownership, and regularly reviewing strategies and tactics—are all important to achieving successful services acquisition outcomes. Taken together, these principles enable companies to better identify and share information on spending and increase market knowledge about suppliers to gain situational awareness of their procurement environment and make more informed contracting decisions. Like the federal government, leading companies have experienced growth in spending on services, and over the last 5 to 7 years have been examining ways to better manage spending. Officials from seven leading companies GAO spoke with reported saving 4 to 15 percent over prior year spending through strategically sourcing the full range of services they buy, including those very similar to what the federal government buys—for example, facilities management, engineering, and information technology.

Agencies have not fully adopted a strategic sourcing approach but some have actions under way. For example, in April 2013, DOD was assessing the need for additional resources to support strategic sourcing efforts, and noted a more focused targeting of top procurement spending categories for supplies, equipment, and services. VA reported that it had taken steps to better measure spending through strategic sourcing contracts and was in the process of reviewing business cases for new strategic sourcing initiatives. In 2012, the Office of Management and Budget (OMB) released a Cross-Agency Priority Goal Statement, which called for agencies to strategically source at least two new products or services in both 2013 and 2014 that yield at least 10 percent savings. In December 2012, OMB further directed agencies to reinforce senior leadership commitment by designating an official responsible for coordinating the agency's strategic sourcing activities. In addition, OMB identified agencies that should take a leadership role on strategic sourcing. OMB directed these agencies to promote strategic sourcing practices inside their agencies by taking actions including collecting data on procurement spending.

United States Government Accountability Office

Chairman Carper, Ranking Member Coburn, and Members of the Committee:

I am pleased to be here today to testify on the value of strategic sourcing as an important tool to achieve greater savings and efficiencies in government procurements of products and services. Generally speaking, strategic sourcing is a procurement process that seeks to move an organization away from numerous individual procurements to a broader aggregate approach. The tools and techniques that come with strategic sourcing enable organizations to

- develop a better picture of what they are spending on goods and services,
- better understand cost drivers,
- prioritize their requirements,
- better manage suppliers,
- take advantage of market trends, and
- target savings.

Leading companies strategically manage 90 percent of their procurement spending, and report savings of 10 percent or more of total procurement costs. We have previously reported that leaders across the government need to embrace a strategic sourcing approach, and that saving 10 percent of the total federal procurement spending would produce more than \$50 billion in savings annually.¹

While strategic sourcing inherently makes good sense and holds the potential to achieve significant savings, federal agencies have been slow to embrace it, even in a time of great fiscal pressure. Reasons for this include a lack of leadership commitment within agencies, a desire on the part of agency officials to maintain control over their contracting, a lack of strategic sourcing expertise, data barriers, and perceptions about strategic sourcing that increase the hesitancy to use it, such as a fear that

¹GAO, 2013 Annual Report: *Actions Needed to Reduce Fragmentation, Overlap, and Duplication and Achieve Other Financial Benefits*, GAO-13-279SP (Washington D.C.: Apr. 9, 2013).

reporting savings will lead to budget cuts. My testimony today will highlight GAO's recent findings related to the use of strategic sourcing across government, best practices leading companies have been adopting to increase savings when acquiring services, and recent actions that could facilitate greater use of strategic sourcing.

This testimony is based largely on GAO's September 2012 report on strategic sourcing and GAO's April 2013 report on leading practices for acquiring services, as well as other GAO reports on contracting and acquisition.² In conducting work on the government side, we spoke with four agencies and analyzed relevant data. On the company side, we visited seven companies and identified key practices. Details of the scope and methodology are available in the September 2012 and April 2013 reports. All work on which this testimony is based was performed in accordance with generally accepted government auditing standards.

Background

GAO has been assessing strategic sourcing and the potential value of applying these techniques to federal acquisitions for more than a decade. In 2002, GAO reported that leading companies of that time committed to a strategic approach to acquiring services—a process that moves a company away from numerous individual procurements to a broader aggregate approach—including developing knowledge of how much they were spending on services and taking an enterprise-wide approach to services acquisition.³ As a result, companies made structural changes with top leadership support, such as establishing commodity managers—responsible for purchasing services within a category—and were better able to leverage their buying power to achieve substantial savings.

Strategic sourcing can encompass a range of tactics for acquiring products and services more effectively and efficiently. In addition to leveraged buying, tactics include managing demand by changing

²GAO, *Strategic Sourcing: Improved and Expanded Use Could Save Billions in Annual Procurement Costs*, GAO-12-919 (Washington, D.C.: Sept. 20, 2012); *Strategic Sourcing: Leading Commercial Practices Can Help Federal Agencies Increase Savings When Acquiring Services*, GAO-13-417 (Washington, D.C.: Apr. 15, 2013); and *Strategic Sourcing: Improved and Expanded Use Could Provide Procurement Savings for Federal Information Technology*, GAO-13-408T (Washington, D.C.: Feb. 27, 2013).

³GAO, *Best Practices: Taking a Strategic Approach Could Improve DOD's Acquisition of Services*, GAO-02-230 (Washington, D.C.: Jan. 18, 2002).

behavior, achieving efficiencies through standardization of the acquisition process, evaluating total cost of ownership, and better managing supplier relationships. We have particularly emphasized the importance of comprehensive spend analysis for efficient procurement since 2002. Spend analysis provides knowledge about how much is being spent for goods and services, who the buyers are, who the suppliers are, and where the opportunities are to save money and improve performance. Private sector companies are using spend analysis as a foundation for employing a strategic approach to procurement.

We have previously reported that because procurement at federal departments and agencies is generally decentralized, the federal government is not fully leveraging its aggregate buying power to obtain the most advantageous terms and conditions for its procurements.⁴ Agencies act more like many unrelated, medium-sized businesses and often rely on hundreds of separate contracts for many commonly used items, with prices that vary widely. Recognizing the benefits of strategic sourcing, the Office of Management and Budget (OMB) issued a memorandum in 2005 that implemented strategic sourcing practices.⁵ Agencies were directed to develop and implement strategic sourcing efforts based on the results of spend analyses.

In addition to individual agency efforts, a government-wide strategic sourcing program—known as the Federal Strategic Sourcing Initiative (FSSI)—was established in 2005. FSSI was created to address government-wide opportunities to strategically source commonly purchased products and services and eliminate duplication of efforts across agencies. The FSSI mission is to encourage agencies to aggregate requirements, streamline processes, and coordinate purchases of like products and services to leverage spending to the maximum extent possible. At the time of our 2012 report, four FSSI efforts were ongoing—focused on office supplies, domestic delivery of packages, telecommunications, and print management—and three were planned

⁴GAO, *Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue*, GAO-11-318SP (Washington, D.C.: Mar. 1, 2011).

⁵OMB, *Memorandum for Chief Acquisition Officers, Chief Financial Officers, and Chief Information Officers, Subject: Implementing Strategic Sourcing* (Washington, D.C.: May 20, 2005).

related to SmartBUY, Wireless plans and devices, and publication licenses.

Expanded Use of Strategic Sourcing Could Save Billions in Federal Procurement Costs

In our September 2012 report, we found that most of the agencies we reviewed leveraged a fraction of their buying power through strategic sourcing. More specifically, in fiscal year 2011, the Department of Defense (DOD), Department of Homeland Security (DHS), Department of Energy, and Department of Veterans Affairs (VA) accounted for 80 percent of the \$537 billion in federal procurement spending, but reported managing about 5 percent of that spending, or \$25.8 billion, through strategic sourcing efforts. Similarly, we found that the FSSI program had only managed a small amount of spending through its four government-wide strategic sourcing initiatives in fiscal year 2011, although it reported achieving significant savings on those efforts. Further, we found that most selected agencies' efforts did not address their highest spending areas, such as services, which provides opportunities for significant savings.

We found that when strategically sourced contracts were used, agencies generally reported achieving savings. For example, selected agencies generally reported savings ranging from 5 percent to over 20 percent of spending through strategically sourced contracts. In fiscal year 2011, DHS reported managing 20 percent of its spending and achieving savings of \$324 million. At the government-wide level, the FSSI program reported managing \$339 million through several government-wide initiatives in fiscal year 2011 and achieving \$60 million in savings, or almost 18 percent of the procurement spending it managed through these initiatives. After strategic sourcing contracts are awarded, realizing cost savings and other benefits depends on utilization of these contracts. We found that only 15 percent of government-wide spending for the products and services covered by the FSSI program went through FSSI contracts in fiscal year 2011. Agencies cited a variety of reasons for not participating, such as wanting to maintain control over their contracting activities, or because the agency had unique requirements. FSSI use is not mandatory and agencies face no consequences for not using FSSI contract vehicles.

Barriers to Strategic Sourcing

There are a variety of impediments to strategic sourcing in the federal setting but several stood out prominently in our 2012 review.⁶ Specifically, agencies faced challenges in obtaining and analyzing reliable and detailed data on spending as well as securing expertise, leadership support, and developing metrics.

- **Data:** Our reports have consistently found that the starting point for strategic sourcing efforts is having good data on current spending and yet this is the biggest stumbling block for agencies. A spending analysis reveals how much is spent each year, what was bought, from whom it was bought, and who was purchasing it. The analysis also identifies where numerous suppliers are providing similar goods and services—often at varying prices—and where purchasing costs can be reduced and performance improved by better leveraging buying power and reducing the number of suppliers to meet needs. The FSSI program and selected agencies generally cited the Federal Procurement Data System-Next Generation (FPDS-NG)—the federal government's current system for tracking information on contracting actions—as their primary source of data, and noted numerous deficiencies with these data for the purposes of conducting strategic sourcing research. Agencies reported that when additional data sources are added, incompatible data and separate systems often presented problems. We have previously reported extensively on issues agencies faced in gathering data to form the basis for their spend analysis.⁷ However, some agencies have been able to make progress on conducting enterprise-wide opportunity analyses despite flaws in the available data. For example, both the FSSI Program Management Office and DHS told us that current data, although imperfect, provide sufficient information for them to begin to identify high spend opportunities. DHS has in fact evaluated the majority of its

⁶GAO-12-919.

⁷GAO, *Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue*, GAO-11-318SP (Washington, D.C.: Mar. 1, 2011); *Defense Acquisitions: Tailored Approach Needed to Improve Service Acquisition Outcomes*, GAO-07-20 (Washington, D.C.: Nov. 9, 2006); *Homeland Security: Successes and Challenges in DHS's Efforts to Create an Effective Acquisition Organization*, GAO-05-179 (Washington, D.C.: Mar. 29, 2005); *Best Practices: Using Spend Analysis to Help Agencies Take a More Strategic Approach to Procurement*, GAO-04-870 (Washington, D.C.: Sept. 16, 2004); and *Best Practices: Improved Knowledge of DOD Service Contracts Could Reveal Significant Savings*, GAO-03-661 (Washington, D.C.: June 6, 2003).

10 highest-spend commodities and developed sourcing strategies for seven of those based on its analysis of primarily FPDS-NG data. Further, we have previously reported that the General Services Administration estimated federal agencies spent about \$1.6 billion during fiscal year 2009 purchasing office supplies from more than 239,000 vendors.⁸ GSA used available data on spending to support development of the Office Supplies Second Generation FSSI, which focuses office supply spending to 15 strategically sourced contracts.

- **Expertise:** Officials at several agencies also noted that the lack of trained acquisition personnel made it difficult to conduct an opportunity analysis and develop an informed sourcing strategy. For example, Army officials cited a need for expertise in strategic sourcing and spend analysis data, and OMB officials echoed that a key challenge is the dearth of strategic sourcing expertise in government. VA and Energy also reported this challenge. A few agencies have responded to this challenge by developing training on strategic sourcing for acquisition personnel. For example, the Air Force noted that it instituted training related to strategic sourcing because it is necessary to have people who are very strong analytically to do the front-end work for strategic sourcing, and these are the hardest to find. The training course facilitates acquisition personnel in obtaining the strong analytical skills to perform steps like market evaluation. VA has also begun to develop training to address this challenge.
- **Leadership commitment:** We also found in 2012 that most of the agencies we reviewed were challenged by a lack of leadership commitment to strategic sourcing, although improvements were under way.⁹ We have reported that in the private sector, the support and commitment of senior management is viewed as essential to facilitating companies' efforts to re-engineer their approaches to acquisition as well as to ensuring follow through with the strategic sourcing approach. However, we found in 2012 that leaders at some agencies were not dedicating the resources and providing the incentives that were necessary to build a strong foundation for strategic sourcing.

⁸GAO, *Strategic Sourcing: Office Supplies Pricing Study Had Limitations, but New Initiative Shows Potential for Savings*, GAO-12-178 (Washington, D.C.: Dec. 20, 2011).

⁹GAO-12-919.

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- **Metrics:** A lack of clear guidance on metrics for measuring success has also impacted the management of ongoing FSSI efforts as well as most selected agencies' efforts. We found that agencies were challenged to produce utilization rates and other metrics—such as spending through strategic sourcing contracts and savings achieved—that could be used to monitor progress. Several agencies also mentioned a need for sustained leadership support and additional resources in order to more effectively monitor their ongoing initiatives.

Agency officials also mentioned several disincentives that can discourage procurement and program officials from proactively participating in strategic sourcing, and at many agencies, these disincentives have not been fully addressed by leadership. Key disincentives identified by agency officials include the following:

- A perception that reporting savings due to strategic sourcing could lead to program budgets being cut in subsequent years,
- Difficulty identifying existing strategic sourcing contracts that are available for use as there is no centralized source for this information,
- A perception that strategically sourced contract vehicles may limit the ability to customize requirements,
- A desire on the part of agency officials to maintain control of their contracting,
- Program officials' and contracting officers' relationships with existing vendors, and
- The opportunity to get lower prices by going outside of strategically sourced contracts.

Leaders at some agencies have proactively introduced practices that address these disincentives to strategically source. For example, DHS and VA reported increasing personal incentives for key managers by adding strategic sourcing performance measures to certain executives' performance evaluations. In addition, several agencies including DOD, DHS, and VA have instituted policies making use of some strategic sourcing contracts mandatory or mandatory "with exception," although the extent to which these policies have increased use of strategic sourcing vehicles is not yet clear. Some agencies have made use of automated systems to direct spending through strategic sourcing contracts. For example, FSSI issued a blanket purchase agreement through its office

supplies initiative that included provisions requiring FSSI prices to be automatically applied to purchases made with government purchase cards. VA reported that its utilization rate for the office supplies FSSI contracts increased from 12 percent to 90 percent after these measures took effect.

Agencies Are Reluctant to Apply Strategic Sourcing to Purchase of Services

In fiscal year 2012, the federal government obligated \$307 billion to acquire services ranging from the management and operations of government facilities, to information technology services, to research and development. This represents over half of all government procurements. Making services procurement more efficient is particularly relevant given the current fiscal environment, as any savings from this area can help agencies mitigate the adverse effects of potential budget reductions on their mission. Moreover, our reports have shown that agencies have difficulty managing services acquisition and have purchased services inefficiently, which places them at risk of paying more than necessary.¹⁰ These inefficiencies can be attributed to several factors. First, agencies have had difficulty defining requirements for services, such as developing clear statements of work which can reduce the government's risk of paying for more services than needed. Second, agencies have not always leveraged knowledge of contractor costs when selecting contract types.¹¹ Third, agencies have missed opportunities to increase competition for services due to overly restrictive and complex requirements; a lack of access to proprietary, technical data; and supplier preferences.¹²

We found that strategic sourcing efforts addressed products significantly more often than services and that agencies were particularly reluctant to apply strategic sourcing to the purchases of services.¹³ For example, of the top spending categories that DOD components reported targeting through implemented strategic sourcing initiatives, only two are services. Officials reported that they have been reluctant to strategically source

¹⁰GAO, *Defense Acquisition: Actions Needed to Ensure Value for Service Contracts*, GAO-09-643T (Washington, D.C.: Apr. 23, 2009).

¹¹Contract types include time-and-materials contracts, performance-based contracts, and undefinitized contracts.

¹²GAO, *Defense Contracting: Competition for Services and Recent Initiatives to Increase Competitive Procurements*, GAO-12-384 (Washington, D.C.: Mar. 15, 2012).

¹³GAO-12-919.

services for a variety of reasons, such as difficulty in standardizing requirements or a decision to focus on less complex commodities that can demonstrate success. Yet, like the commercial sector, federal agencies can be strategic about buying services. For example, DHS has implemented a strategic sourcing initiative for engineering and technical services, which is also in the top 10 spending categories for the Army, Air Force, and Navy.

The reluctance of federal agencies to apply strategic sourcing to services stands in sharp contrast to leading companies. As described below, leading companies perceive services as prime candidates for strategic sourcing, though they tailor how they acquire these services based on complexity and availability.

Leading Company Practices Generate Significant Savings by Strategically Sourcing Services

Given the trend of increased federal government spending on services and today's constrained fiscal environment, this Committee asked that we identify practices used by large commercial organizations in purchasing services. We reported on the results of this review in April 2013.¹⁴ Like the federal government, leading companies have experienced growth in spending on services, and over the last 5 to 7 years, have been examining ways to better manage them. Officials from seven leading companies GAO spoke with reported saving 4 to 15 percent over prior year spending through strategically sourcing the full range of services they buy, including services very similar to what the federal government buys: facilities management, engineering, and information technology, for example. Leading company practices suggest that it is critical to analyze all procurement spending with equal rigor and with no categories that are off limits. Achieving savings can require a departure from the status quo. Companies' keen analysis of spending, coupled with central management and knowledge sharing about the services they buy, is key to their savings. Their analysis of spending patterns can be described as comprising two essential variables: the complexity of the service and the number of suppliers for that service. Knowing these variables for any given service, companies tailor their tactics to fit the situation; they do not treat all services the same. In our 2013 report, we highlighted quotes from company officials that illuminate what their approach to increasing procurement efficiency means to them (see table 1).

¹⁴GAO-13-417.

Table 1: Quotes from Company Officials about Increasing Procurement Efficiency

- "If you measure it, savings will happen"
- "Savings is in our DNA"
- "Unmanaged spend equals inefficiency"
- "Centralize the knowledge, not the activity"
- "You must eliminate rogue buying"
- "You cannot just go with a 'three bids and a buy' contracting approach"
- "When purchasing a service, you are essentially paying for the quality of the suppliers' management processes"
- "You must continually stay ahead of suppliers or they will figure you out"
- "Complexity drives cost"

Source: Interviews with company officials.

Leading companies generally agreed that the following foundational principles are all important to achieving successful services acquisition outcomes:

- maintaining spend visibility,
- centralizing procurement,
- developing category strategies,
- focusing on total cost of ownership, and
- regularly reviewing strategies and tactics.

Taken together, these principles enable companies to better identify and share information on spending and increase market knowledge about suppliers to gain situational awareness of their procurement environment. This awareness positions companies to make more informed contracting decisions.

For example, in addition to leveraging knowledge about spending, leading companies centralize procurement decisions by aligning, prioritizing, and integrating procurement functions within the organization. The companies we spoke with overcame the challenge of having a decentralized approach to purchasing services, which had made it difficult to share knowledge internally or use consistent procurement tactics. Without a centralized procurement process, officials told us, companies ran the risk that different parts of the organization could be unwittingly buying the same item or service, thereby missing an opportunity to share knowledge

of procurement tactics proven to reduce costs. Company officials noted that centralizing procurement does not necessarily refer to centralizing procurement activity, but to centralizing procurement knowledge. This is important because there is a perception in the federal community that strategic sourcing requires the creation of a large, monolithic buying organization.

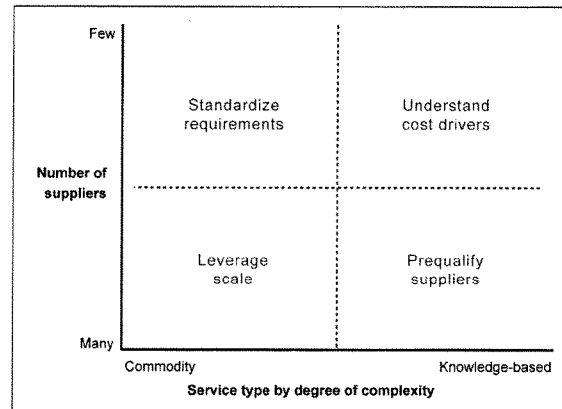
Companies also develop category-specific procurement strategies with stakeholder buy-in in order to use the most effective sourcing strategies for each category. Category-specific procurement strategies describe the most cost-effective sourcing vehicles and supplier selection criteria to be used for each category of service, depending on factors such as current and projected requirements, volume, cyclicalities of demand, risk, the services that the market is able to provide, supplier base competition trends, the company's relative buying power, and market price trends. Company officials told us that category strategies help them conduct their sourcing according to a proactive strategic plan and not just on a reactive, contract-by-contract basis. One company's Chief Procurement Officer referred to the latter as a "three bids and a buy" mentality that can be very narrowly focused and result in missed opportunities such as not leveraging purchases across the enterprise or making decisions based only on short term requirements. Similarly, Boeing says it sometimes chooses to execute a short-term contract to buy time if market research shows a more competitive deal can be obtained later.

In addition, companies focus on total cost of ownership—making a holistic purchase decision by considering factors other than price. This is also contrary to a perception that strategic sourcing can lose a focus on best value. For example, while Walmart may often award a contract to the lowest bidder, it takes other considerations into account—such as average invoice price, time spent on location, average time to complete a task, supplier diversity, and sustainability—when awarding contracts. Humana is developing internal rate cards for consulting services that would help the company evaluate contractors' labor rates based on their skill level. Pfizer's procurement organization monitors compliance with company processes and billing guidelines. The company considers its procurement professionals as essentially risk managers rather than contract managers because they need to consider what is best for the company and how to minimize total cost of ownership while maintaining flexibility.

Companies Tailor Their Procurement Tactics to Each Type of Service Depending on Complexity and Availability of Suppliers

By following the foundational principles to improve knowledge about their procurement environment, companies are well positioned to choose procurement tactics tailored to each service. While companies emphasize the importance of observing the principles, including category strategies, they do not take a one-size-fits-all approach to individual service purchase decisions. Two factors—the degree of complexity of the service and the number of available suppliers—determine the choice of one of four general categories of procurement tactics appropriate for that service: leveraging scale, standardizing requirements, prequalifying suppliers, and understanding cost drivers. Figure 1 below shows how the two factors help companies categorize different services and select appropriate tactics.

Figure 1: Companies' Transactional Framework



Source: GAO analysis.

For commodity services with many suppliers, such as administrative support, facilities maintenance, and housekeeping, companies generally focus on leveraging scale and competition to lower cost. Typical tactics applicable to this quadrant of services include consolidating purchases across the organization; using fixed price contracts; developing procurement catalogs with pre-negotiated prices for some services; and

varying bidding parameters such as volume and scale in order to find new ways to reduce costs.

For commodity services with few suppliers, such as specialized logistics and utilities, companies focus on standardizing requirements. Typical tactics applicable to this quadrant of services include paring back requirements in order to bring them more in line with standard industry offerings, and developing new suppliers to maintain a competitive industrial base. For example, Walmart holds pre-bid conferences with suppliers such as those supplying store security for "Black Friday"—the major shopping event on the day after Thanksgiving—to discuss requirements and what suppliers can provide. Delphi makes an effort to maintain a competitive industrial base by dual-sourcing certain services in order to minimize future risk—a cost trade-off.

For knowledge-based services with many suppliers, such as information technology, legal, and financial services, companies prequalify and prioritize suppliers to highlight the most competent and reasonable suppliers. Typical tactics applicable to this quadrant of services include prequalifying suppliers by skill level and labor hour rates; and tracking supplier performance over time in order to inform companies' prioritization of suppliers based on efficiency. For example, Pfizer Legal Alliance was created to channel the majority of legal services to pre-selected firms. Delphi only awards contracts to companies on their Category Approved Supplier List. The list is approved by Delphi leadership and is reviewed annually.

For knowledge-based services with few suppliers, such as engineering and management support and research and development services, companies aim to maximize value by better understanding and negotiating individual components that drive cost. Typical tactics applicable to this quadrant of services include negotiating better rates on the cost drivers for a given service; closely monitoring supplier performance against pre-defined standards; benchmarking supplier rates against industry averages in order to identify excess costs; and improving collaboration with suppliers (see table 2).

Table 2: Examples of Services Based on Complexity and Number of Suppliers

	Commodity services	Knowledge-based services
Few suppliers	<ul style="list-style-type: none"> • Certain types of security • Specialized logistics • Specialized maintenance and repair • Utilities 	<ul style="list-style-type: none"> • Engineering and management support • High-end consulting • Intelligence • Research and development • Specialty legal • Specialty training
Many suppliers	<ul style="list-style-type: none"> • Administrative support • Automated data processing • Contract and contingent labor • Facilities construction and operations • General maintenance and repair • Housekeeping and janitorial • Landscaping • Telecommunications • Travel and transportation 	<ul style="list-style-type: none"> • Advertising and marketing • Education and training • Financial • Health care • Human resources • Information technology • Legal • Public relations

Source: GAO analysis based on company interviews.

Companies we reviewed are not content to remain limited by their environment; over the long term, they generally seek to reduce the complexity of requirements and bring additional suppliers into the mix in order to commoditize services and leverage competition. This dynamic, strategic approach has helped companies demonstrate annual, sustained savings. Companies generally aim to commoditize services over the long term as much as possible because, according to them, the level of complexity directly correlates with cost. Companies also aim to increase competition, whether by developing new suppliers or reducing requirements complexity, which could allow more suppliers to compete. In doing so, companies can leverage scale and competition to lower costs.

Recent Actions May Facilitate Agencies' Greater Use of Strategic Sourcing

OMB and other agencies have recently taken actions to expand the use of strategic sourcing. In September 2012, GAO recommended that the Secretary of Defense, the Secretary of Veterans Affairs, and the Director of OMB take a series of detailed steps to improve strategic sourcing efforts.¹⁵ More specifically, we recommended that

- DOD evaluate the need for additional guidance, resources, and strategies, and focus on DOD's highest spending categories;
- VA evaluate strategic sourcing opportunities, set goals, and establish metrics; and
- OMB issue updated government-wide guidance on calculating savings, establish metrics to measure progress toward goals, and identify spending categories most suitable for strategic sourcing.

In commenting on the September 2012 report, DOD, VA, and OMB concurred with the recommendations and stated they would take action to adopt them. We reported in April 2013 that DOD and VA had not fully adopted a strategic sourcing approach but had actions under way.¹⁶ For example, at that time, DOD had developed a more comprehensive list of the department's strategic sourcing efforts, was creating additional guidance that includes a process for regular review of proposed strategic sourcing initiatives, noted a more focused targeting of top procurement spending categories for supplies, equipment, and services, and was assessing the need for additional resources to support strategic sourcing efforts. VA reported that it had taken steps to better measure spending through strategic sourcing contracts and was in the process of reviewing business cases for new strategic sourcing initiatives, and adding resources to increase strategic sourcing efforts.

In 2012, OMB released a Cross-Agency Priority Goal Statement, which called for agencies to strategically source at least two new products or services in both 2013 and 2014 that yielded at least 10 percent savings. At least one of these new initiatives is to target information technology commodities or services. In December 2012, OMB further directed certain agencies to reinforce senior leadership commitment by designating an official responsible for coordinating the agency's strategic sourcing

¹⁵GAO-12-919.

¹⁶GAO-13-279SP.

activities. In addition, OMB identified agencies that should take a leadership role on strategic sourcing. OMB called upon these agencies to lead government-wide strategic sourcing efforts by taking steps such as recommending management strategies for specific goods and services to ensure that the federal government receives the most favorable offer possible. OMB directed these agencies to promote strategic sourcing practices inside their agencies by taking actions including collecting data on procurement spending.

In closing, current fiscal pressures and budgetary constraints have heightened the need for agencies to take full advantage of strategic sourcing. These practices drive efficiencies and yield benefits beyond savings, such as increased business knowledge and better supplier management. Government-wide strategic sourcing efforts have been initiated, and federal agencies have improved and expanded upon their use of strategic sourcing to achieve cost savings and other benefits. However, little progress has been made over the past decade and much more needs to be done to better incorporate strategic sourcing leading practices, increase the amount of spending through strategic sourcing, and direct more efforts at high spend categories, such as services. Companies have shown that it is possible to save money by strategically managing services. They have done so not just by consolidating purchases of simple, commodity-like services; they have devised strategies and tactics to manage sophisticated services. Companies have also shown that savings come over a wide base and that results can be achieved with leadership, shared data, and a focus on strategic categories that is dynamic rather than static. Strategic sourcing efforts to date have targeted a small fraction of federal procurement spending. As budgets decline, however, it is important that the cost culture in federal agencies change. Adopting leading practices can enable agencies to provide more for the same budget.

Chairman Carper, Ranking Member Coburn, and Members of the Committee, this concludes my statement. I would be pleased to answer any questions at this time.

WRITTEN TESTIMONY FOR THE RECORD

SUBMITTED BY ROGER D. WALDRON

PRESIDENT OF THE COALITION FOR GOVERNMENT PROCUREMENT

FOR THE

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

UNITED STATES SENATE

JULY 30, 2013

Chairman Carper, Ranking Member Coburn, and Members of the Committee: The Coalition for Government Procurement (the Coalition) appreciates the opportunity to provide written testimony to address "Strategic Sourcing: Leveraging the Government's Buying Power to Save Billions." Included in this testimony are specific recommendations that will result in even greater taxpayer savings than the current strategic sourcing approach.

The Coalition is a non-profit association of firms selling commercial services and products to the Federal government. Collectively, our members account for about half the commercial item solutions purchased annually by the Federal government. Members include small, medium, and large businesses from across the commercial marketplace including office supply, furniture, professional services, information technology, and maintenance and repair companies. Our members have been involved in many of the government's strategic sourcing acquisitions to date. Next year will mark our 35th anniversary as an association. We are proud to have worked with government officials during these years toward the goal of common sense acquisition that delivers best value to customer agencies and the American people.

The Federal government has a significant opportunity to "buy smarter and save" through the adoption of certain strategic sourcing principles. The current strategic sourcing approach used by the government focuses on reducing the supplier base, collecting transactional data, and driving unit prices down. The strategy misses significant opportunities to save taxpayer dollars by:

- Improving the way items are managed,
- Better developing government technical requirements,
- More effectively leveraging volume, and
- Streamlining procurement processes.

Strategic sourcing savings estimates focus on the final prices paid by Federal agencies but do not account for taxpayer investment in the creation and long term management of new strategic sourcing programs government-wide. The government reports large savings due to strategic sourcing efforts to date. The Coalition urges that there be greater transparency in how these savings are calculated. Moreover, as the government looks to increase its use of strategic sourcing, the Coalition recommends a broader approach to achieving savings that: 1) measures and reduces total acquisition costs, 2) addresses the growth of duplicative contracts government-wide, and 3) maintains a competitive Federal supply chain in the long term.

I. Measure Total Acquisition Costs

Strategic acquisition involves effectively managing the total acquisition costs throughout the procurement process. Total acquisition costs include not only the prices paid for products and services, but also transactional and administrative costs incurred by Federal agencies that are less visible. Examples include the costs of planning and conducting acquisitions as well as contract management throughout the life of the contract. Total acquisition cost also focuses on more than the contract process. It considers what the agency buys, and how an item is managed. These costs and opportunities for savings can be far more significant than reductions in the unit price of an item.

Government unique contract and procedural requirements also increase the procurement system's total acquisition costs. The last decade has seen a layering on of government unique clauses, regulations and performance requirements for commercial items. In particular, over the years there has been a significant increase in additional government clauses on commercial item contracts in the Federal Acquisition Regulation. In turn, agencies have also added their own unique requirements that are inconsistent with what is available in the commercial market. These government unique provisions increase risk and operational costs for contractors, resulting in higher

prices for government. Due to the additional costs associated government unique requirements, rather than getting the best competitive pricing for a specific requirement the best the government can achieve is the “best of the worst market pricing.”

The current Federal Strategic Sourcing Initiative (FSSI) involves the use of government-wide Federal Supply Schedule (FSS) Blanket Purchase Agreements (BPAs). The Coalition supports the use of Federal Supply Schedules as a platform for government-wide strategic sourcing initiatives. The current strategies however do not effectively leverage the benefits of the Schedule vehicles.

FSSI BPAs do not include specific customer requirements. The BPAs include a host of costly and complex administrative terms and conditions. Moreover, the process for planning, competing and establishing these FSSI BPAs is very costly. In order to recoup its costs of establishing these BPAs, the General Services Administration (GSA) has included an additional fee to customer agencies, beyond the FSS’s industrial funding fee, for use of the government-wide FSSI BPAs. As a result, a GSA customer agency pays a higher fee for competing orders under the FSSI BPA than when competing orders under FSS contracts. At the same time, competing the order under the FSS contracts will likely result in similar price savings as utilizing a competition under the FSSI BPAs.

A more cost effective strategic sourcing approach would be the promotion and use of agency-specific BPAs that are based on firm requirements and volume commitments. This would allow those closest to the requirements, the end-user agencies, to craft BPAs that are fully responsive to their needs. This approach provides the opportunity to include volume commitments that would enhance competition and deliver greater agency savings. These agency savings in turn could be reported to the Office of Management and Budget as part of FSSI.

With regard to the savings associated with the current FSSI BPAs, the accuracy of strategic sourcing savings estimates available today is unclear. As noted in GAO

Report 12-178 “Strategic Sourcing: Office Supplies Pricing Study Had Limitations, but New Initiative Shows Potential for Savings” published in December 2011, GSA has relied upon a comparison between FSSI BPA pricing and FSS contract level pricing in order to calculate strategic sourcing savings. However, in many respects this is a misleading comparison in that Federal agencies rarely pay the FSS Schedule price for orders with specific requirements. Instead, the final prices paid by the Federal agencies under the FSS program are typically discounted from the FSS contract price through task or delivery order and/or BPA competitions for specific agency requirements. Indeed, there are statutory and regulatory mandates requiring competition for task orders under FSS contracts. A more accurate approach would require the government to calculate strategic sourcing savings by comparing actual prices paid by Federal agencies under task orders and BPAs with FSSI BPA prices.

Measuring total acquisition cost is critical to understanding how much taxpayers are actually saving and the associated costs and benefits of strategic sourcing programs. That is why the Coalition supports the transparent review of the costs and purported savings associated with establishing the FSSI government-wide BPAs.

II. Reduce Non-value Added Contract Duplication Costs

A significant cost driver for the entire Federal procurement system is contract duplication. Across the Federal enterprise there are too many contract vehicles that offer the same or similar services and products. According to Bloomberg Government, the number of multiple award contracts (MACs) government-wide increased by more than 750 between 2006 and 2011. When both the government and private companies invest in duplicative contracts, the result is increased government and contractor administrative, bid and proposal costs without added value for the American taxpayer. Overlapping, redundant contracts also have to be managed by both the public and private sectors causing inefficiencies within and across Federal agencies and in companies for the life of these contracts.

The bid and proposal costs that contract duplication compounds for companies include, but are not limited to, business development, teaming, capture management, proposal development, pricing, negotiations, and decision-making. The costs of these efforts are multiplied by new procurements and exasperated by the extension of these procurements.

In addition, contract administrative costs include overseeing subcontractors, responding to task and delivery orders, compliance and reporting, as well as marketing for new opportunities. Typically contractors will establish a program office to manage individual contracts. Contractors that hold multiple contracts for the same goods and services must increase investment in these overhead activities to accommodate the unique requirements of each contract. These contract administration functions can account for millions of dollars in non-value added costs. Not only does the government pay for these costs in prices offered by the contractor, but it also covers significant pre-award and post-award costs involved in the administration and management of duplicative contracts.

To reduce the number of duplicative contracts across the Federal enterprise, agencies should utilize pre-existing government-wide contract vehicles like the GSA FSS program and the information technology government-wide acquisition contracts (GWACs). The Coalition strongly supports the use of the agency specific BPAs established throughout the FSS program for strategic sourcing. GSA's FSS program is the most successful shared services model in government. Agencies can compete and order items directly from existing contracts rather than go through the long and costly process of establishing their own contracts. FSS contracts account for over \$50 billion in government purchases annually (including GSA and FSS contracts delegated to the Department of Veterans Affairs). Customer agencies rely on the FSS contracting framework to compete and place tens of thousands of delivery and/or task orders effectively each year. It is a shared services framework that empowers customer agencies and contractors to focus on requirements and pricing at the task order

competition level rather than through lengthy, cumbersome and costly contracting processes and procedures.

Rather than creating new strategic sourcing vehicles for products and services, like the FSSI contracts, the Office of Federal Procurement Policy should direct customer agencies to utilize GSA's FSS program for requirements and avoid creating duplicative multiple award contracts. Competing orders and/or establishing BPAs under the FSS program for agency specific requirements will reduce costs in the Federal procurement system and drive efficiency.

III. Long Term Impact of the Federal Strategic Sourcing Initiative

The Coalition is concerned that the FSSI program will have a negative impact on the Federal supply chain in the long term—by reducing the number of suppliers (in pursuit of short term lower pricing) and by closing the Federal market to businesses nationwide.

Today GSA's FSS program provides more than 20,000 established contracts that bring millions of commercial services and products to the Federal marketplace. The FSS program's continuous open season policy allows companies to enter the Federal market everyday like the commercial marketplace. Under continuous open seasons, companies can submit offers to GSA any work day of the fiscal year. This model provides new commercial firms of all sizes with an ongoing opportunity to participate in the vital Federal marketplace. In particular, continuous open seasons provide opportunities for small businesses seeking to enter the federal market. As a result, competition is enhanced, and the government gains access to the latest commercial services and products.

The current practice of closing FSS contracts to new offers after a FSSI contract is established shuts out potential new entrants and innovation from the Federal market. This departure from the policy of continuous open seasons makes it difficult for new

companies, especially small businesses, to enter the Federal market and limits competition which is the basis for driving lower prices. Symbolically, it also represents a lack of faith in the dynamic competition of the commercial marketplace.

Finally, of great concern is the potential move by GSA and OMB to government-wide mandatory use contracting vehicles. Mandatory use represents a closing of the federal market to commercial firms. This is especially a concern for small businesses that rely on the government market. Mandatory use is also high risk to the government as it creates the potential for contract breach liability if a customer agency acquires items from other than the mandatory contractors. Significantly, in the 1990's certain FSS contracts were mandatory use for all government. GSA paid these mandatory use contractors millions of dollars in contract breach claims as a result of customer agencies acquiring items from other sources.

IV. Recommendations

As the government increases its use of strategic sourcing, the Coalition recommends the following to maximize savings and increase efficiencies in the Federal procurement system:

1. **Reduce Contract Duplication:** The Office of Management and Budget should require Federal agencies to utilize pre-existing government-wide contract vehicles to procure services and products like FSS contracts and the information technology government-wide acquisition contracts to the maximum extent practicable.
2. **Measure and Reduce Total Acquisition Costs:** Include total acquisition cost when calculating the savings achieved through strategic sourcing. The total acquisition cost should include the government's administrative costs for planning, conducting acquisitions, data collection, and contract management.
3. **Put "Commercial" back in Commercial Item Contracting:** Identifying and eliminating government-unique requirements in favor of commercial practices

will greatly reduce the additional costs involved in doing business with the Federal government and drive more competitive pricing for agencies and the American taxpayer.

4. **Utilize BPA Best Practices:** Adopt the best practices outlined in Attachment 1 with a focus on utilizing agency-level strategic sourcing BPAs with specific volume commitments rather than generic government-wide contracts.

V. Conclusion

Mr. Chairman and Members of the committee, the Coalition for Government Procurement is encouraged that you are focusing on how strategic sourcing principles can best be used to leverage the buying power of the Federal government. Implemented appropriately, strategic sourcing presents a significant opportunity to drive considerable cost savings and improve the efficiency and effectiveness of the Federal procurement system. We appreciate the opportunity to offer written testimony on this important subject and stand ready to provide you with additional input at your request. Thank you.



Best Practices for Establishing Blanket Purchase Agreements

The GSA Schedule program provides agencies with an excellent platform to acquire commercial services, solutions and products at reasonable prices. Agencies can forge relationships with commercial partners and further leverage their buying power by establishing Blanket Purchase Agreements (BPAs). The regulatory requirements for establishing BPAs are set forth in FAR 8.4. In addition to complying with the regulatory requirements, there are specific strategies that have proven to be successful in allowing an agency to structure BPAs in a manner that increases the ability of GSA Schedule contractors to respond in a more competitive manner. This paper sets forth best practices that have resulted in BPAs that are successful for both federal agencies and GSA Schedule contractors.

Overview

Commercial contractors overwhelmingly report that they offer their best terms and prices to customers who provide the most detailed information about their requirements and usage. Commercial customers that get the best deals share the following traits. They have:

1. Known, requirements which they share with potential suppliers
2. Commitment to acquire a specific volume
3. Centralized program management
4. Strategies for partnering with suppliers

Specific information about the factors listed above, when included in a statement of work, have great potential to enhance the Government and industry's ability to provide best value to the taxpayer.

Specific requirements, volume commitments and/or guaranteed minimums for BPAs will lead to enhanced competition and better pricing. Generic BPAs that rely on subsequent task order competitions introduce a level of complexity and cost that is counterproductive.

Best BPA Practices

The following practices have resulted in BPAs that improve efficiency and enhance real competition while providing best value to the government.

1. Focus on requirements. BPAs should be structured with a focused set of requirements to enhance effective competition and pricing. Real requirements lead to real price competition in the FSS ordering process.

- BPAs reflecting single agency requirements should be preferred over multiple agency or government-wide BPAs. Single agency BPAs allow the government to state specific, realistic, authentic requirements that can be accurately priced.
- Include maximum as well as minimum requirements. This information enables bidders to provide targeted pricing and avoid the need to build in cushions to cover risks and changes that may never materialize.
- Include a sound estimate of the government's anticipated usage

2. Include real economic incentives for competition. Commercial pricing policies commonly extend favorable pricing to customers with terms and guarantees that offer the company an economic benefit. Economic incentives include:

- A commitment to acquire a guaranteed minimum volume.
- Absent a guaranteed minimum the BPA can include a list of required users
- If an agency cannot commit to a guaranteed minimum or list of required user, the BPA should be evaluated based on technical requirements only; price can be established based on competition among technically qualified BPA holders at task order level

3. Pay attention to BPA management. Major BPAs should have a program manager assigned to ensure effective execution, implementation and administration. Too often BPAs are established without a focused management plan for effective use. Program Managers can be particularly effective in:

- Establishing robust communication between the contractors and end users to continually improve the contract administration
- Eliminating unnecessary administrative requirements that add unnecessary costs to the process
- Monitoring agency ordering
- Periodically reviewing BPAs to ensure continued best value.

4. To the extent allowable, involve industry partners in the development of acquisition strategy. The Government should use industry meetings and statements of work to share statements of the agency objectives. In some cases, agencies are focused entirely on negotiating low price and may miss opportunities to acquire new commercial solutions that could improve

the delivery of services or provide cutting edge technology. Agencies may also be focused on lowering the unit price of products or services without considering more significant opportunities to lower the total cost of operations by changing what or how they buy. Fully incorporating industry discussions early in the process can open opportunities for suggestion new, cost saving strategies from commercial partners.

5. Eliminate “generic BPAs” (no stated users, no minimum volume, broad statement of requirements). Generic multiple award BPAs that rely on subsequent task order competitions add an extra level to the FSS ordering process that is unnecessary and should be avoided. These BPAs represent vertical contract duplication and increase costs for both government and industry. Moreover, any price competition when establishing these BPAs is illusory. Subsequent BPA task order competitions for specific requirements establish the real price paid by the government—it is more efficient to compete these requirements directly against GSA Schedule contracts.